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Russel Metals Inc.

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Versatility

2001 Annual Report

Five Year Financial Highlights

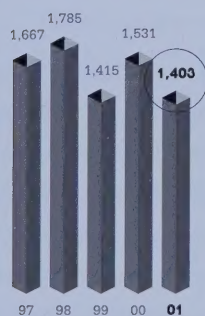
For the years ended December 31	2001	2000	1999	1998	1997
Income Statement Information (\$000)					
Revenues	\$ 1,402,509	\$ 1,530,978	\$ 1,415,392	\$ 1,784,787	\$ 1,667,431
EBITDA (Note 1)	65,284	80,387	72,751	87,288	70,694
EBITDA to sales %	4.7%	5.3%	5.1%	4.9%	4.2%
EBIT (Note 2)	50,621	66,142	59,220	75,595	60,162
EBIT to sales %	3.6%	4.3%	4.2%	4.2%	3.6%
Adjusted pre-tax earnings (Note 5)	27,604	42,293	36,992	42,803	30,977
Adjusted net earnings (Note 6)	16,479	23,900	41,856	40,133	30,586
Adjusted basic earnings per common share (\$) (Note 6)	\$ 0.37	\$ 0.53	\$ 0.74	\$ 0.63	\$ 0.45
Balance Sheet Information (\$000)					
Metals					
Accounts receivable	\$ 192,244	\$ 246,093	\$ 210,687	\$ 222,105	\$ 259,582
Inventories	265,417	290,991	254,527	331,790	301,769
Prepaid expenses and other assets	2,053	1,587	1,821	2,032	2,168
Accounts payable and accrued liabilities	(157,300)	(183,659)	(168,546)	(173,422)	(186,629)
Net working capital—Metals	302,414	355,012	298,489	382,505	376,890
Fixed assets	85,825	75,297	73,402	66,265	65,829
Goodwill	15,123	7,843	5,066	7,201	8,105
Net assets employed in metals operations	403,362	438,152	376,957	455,971	450,824
Other operating assets	26,434	25,230	25,304	30,747	26,710
Non-core and discontinued assets and liabilities	4,874	6,610	41,910	40,848	57,099
Net income tax assets and liabilities	13,326	16,013	21,737	4,635	5,377
Deferred financing charges	6,177	7,613	8,249	4,595	4,294
Pension and benefit liabilities	(9,242)	(9,143)	(9,411)	3,963	4,850
Other corporate assets and liabilities	(1,259)	(6,584)	(2,232)	(4,797)	(11,248)
Total net assets employed	\$ 443,672	\$ 477,891	\$ 462,514	\$ 535,962	\$ 537,906
Capitalization (\$000)					
Bank indebtedness, net of cash	\$ (17,151)	\$ 12,311	\$ (19,968)	\$ 58,268	\$ 80,670
Long-term debt	214,105	217,525	210,413	233,914	245,733
Total interest bearing debt	196,954	229,836	190,445	292,182	326,403
Preferred shares	30,000	30,000	30,000	30,000	30,000
Market capitalization (Note 4)	136,733	110,146	182,360	178,626	224,443
Total firm value	\$ 363,687	\$ 369,982	\$ 402,805	\$ 500,808	\$ 580,846
Other Information					
Common shareholders' equity (\$000)	\$ 216,718	\$ 218,055	\$ 224,302	\$ 213,780	\$ 181,503
Capital expenditures (\$000)	8,152	13,020	17,249	11,002	8,823
Depreciation and amortization (\$000)	14,663	14,245	12,444	11,693	10,532
Adjusted interest (\$000) (Note 3)	\$ 23,017	\$ 23,849	\$ 22,228	\$ 32,792	\$ 29,185
Earnings multiple	9.61	5.50	5.17	5.54	9.78
Firm value as a multiple of EBIT	7.18	5.59	6.68	6.62	9.65
Firm value as a multiple of EBITDA	5.57	4.60	5.54	5.74	8.22
Interest bearing debt/EBITDA	3.02	2.86	2.62	3.35	4.62
EBITDA/Interest (Notes 2 and 3)	2.84	3.37	3.27	2.66	2.42
Firm value as a multiple of sales	0.26	0.24	0.28	0.28	0.35
Market capitalization as a % of book value	63%	51%	75%	84%	124%
Interest bearing debt as a % of net Metals working capital	65%	65%	64%	76%	87%
Return on capital employed (EBIT/net assets employed)	11.4%	13.8%	12.8%	13.1%	11.2%
Return on market capitalization (adjusted net earnings/market cap.) (Note 2)	12.1%	21.7%	23.0%	22.5%	13.6%
Common Share Information					
Ending outstanding common shares	37,981,501	37,981,501	47,489,547	51,035,864	51,009,864
Average outstanding common shares	37,981,501	41,068,870	49,573,917	51,029,103	51,008,279
Book value per share (\$)	\$ 5.71	\$ 5.74	\$ 4.72	\$ 4.19	\$ 3.56
Common share dividends	\$ 0.20	\$ 0.15	\$ —	\$ —	\$ —
Price range of stock (\$)					
Market price of common shares at December 31	\$ 3.60	\$ 2.90	\$ 3.84	\$ 3.50	\$ 4.40
High	\$ 3.90	\$ 4.95	\$ 4.40	\$ 6.25	\$ 5.70
Low	\$ 2.70	\$ 2.75	\$ 2.50	\$ 2.51	\$ 2.75

- Notes: 1. Earnings from continuing operations before deduction of interest, taxes, special charges, unusual items, depreciation and amortization.
2. Earnings from continuing operations before deduction of interest, taxes, special charges and unusual items.
3. Interest from 1997-1999 includes pretax interest on 9% Convertible Debentures recorded as dividends.
4. Outstanding common shares times market price of a common share at December 31.
5. Earnings from continuing operations before taxes, special charges and unusual items net of taxes.
6. Earnings from continuing operations before special charges and unusual items net of taxes.

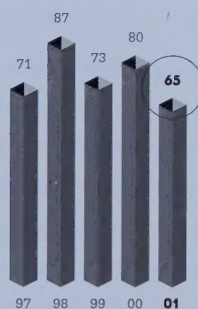
2001 Highlights

- Basic Earnings Per Share of \$0.37 before special charges and unusual items net of taxes
- Generated cash from operating activities of \$93.1 million
- Acquired A. J. Forsyth
- Acquired Spartan Steel
- Repurchased \$14.8 million Senior Notes
- Inventory reduced by \$36.8 million
- Return on Ending Capital 11.4%

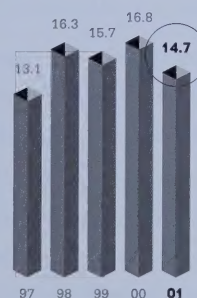
Revenues
(millions)



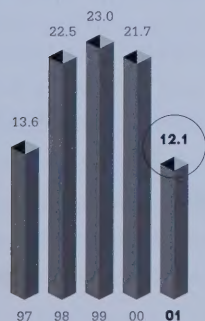
EBITDA
(millions)



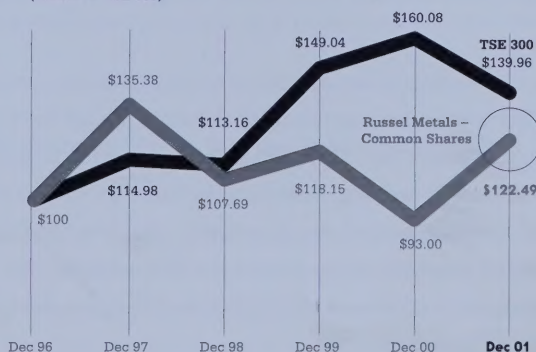
**EBITDA as a percentage
of net assets employed**
(%)



**Return on market
capitalization**
(%)



Comparative return
(Russel vs. TSE 300)



A Conversation with the President and Chief Executive Officer

Q You selected the term “versatility” as the cover theme for the 2001 Annual Report. What is the thinking behind this?

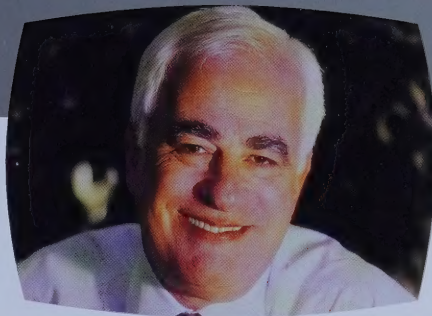
A Notwithstanding world events since the September 11th tragedy, 2001 was an extraordinarily challenging year for Russel Metals in so much as the industry suffered through what has been considered the worst steel market in the past 20 years. I am proud to report that we ended the year with a profit, with cash in the bank, with an even stronger balance sheet than that at the beginning of the year, with a stock price that was up 24% year over year, and we were able to return an additional \$.20 per share to our Shareholders in the form of a cash dividend.

For the above, I want to take this opportunity to thank all the employees of the Russel Metals group of companies who did a superlative job in these most trying circumstances and to thank our customers and our suppliers for their ongoing support.

We attribute much of our success to the versatility that has allowed us to remain profitable in this depressed market. Companies with the lowest fixed costs and the best asset management have the flexibility to change with the times. For a Metals Distribution company, Russel Metals is particularly adept at this due to our unique mix of businesses, and low fixed costs. When coupled with the balance sheet strength, these attributes have enabled the Company to not only successfully weather our market, but to also participate in acquisition opportunities on our terms as they have become available.

Q You stated 2001 was a tough year in the steel industry. How did the Company remain profitable?

A Our business mix of service centers, import/export operations, and energy operations helped cushion the weakness experienced in the sector and enabled Russel to remain profitable when many of our peers in the industry were not only unprofitable, but over 25 entered into bankruptcy or insolvency proceedings. The Company-wide emphasis on the reduction in working capital and efficient utilization of net assets was critical in enabling the Company to lead the industry in obtaining inventory reductions and constricting net assets employed to reflect the lower sales volumes. In addition, the service center businesses have focused on reducing operating expenses, and while cost reductions have not completely matched the sales decline, they have contributed greatly in helping the Company remain profitable.



Edward M. Siegel, Jr.
President and Chief Executive Officer

Notwithstanding world events since the September 11th tragedy, we attribute much of our success to the versatility that has allowed us to remain profitable in this depressed market. Companies with the lowest fixed costs and the best asset management have the flexibility to change with the times.

Q You have been very accurate in your outlook comments in the annual report over the last several years. How do you feel the 2001 predictions turned out?

A The Company's operations performed as predicted. The weakness in the overall economy continued throughout the year. There was no recovery in the second half of the year, which was also predicted. The energy sector driven by the oil and gas-drilling activities started the year off very strong, but the drop in oil prices in the second half caused the energy sector to weaken late in the year. The import/export business segment, while down from last year's results, was stronger than anticipated given the North American trade actions and uncertainty in the steel market. It was the service centers, which mirror the performance of the manufacturing sector, that experienced weaker results. Profitability was reduced due to the continued broad-based pricing decline of steel products and weak customer demand experienced throughout the year.

Q Your reported earnings of \$0.17 per share are down, but you seem quite upbeat.

A Yes I am; we reported earnings per share of \$0.17 but the underlying operating results were stronger than most of our competitors in these trying conditions. The earnings from continuing operations were \$0.35 per share and even this number included a number of one-time charges unique to 2001. These one-time charges reduced operating income by \$3.1 million and reduced earnings from continuing operations by a further \$0.05 per share. So yes, I believe we have every reason to be upbeat based on what we accomplished in 2001 and our prospects for the future.

It's all about versatility.

Q During 2001 a portion of the 10% Senior Notes were redeemed. Why?

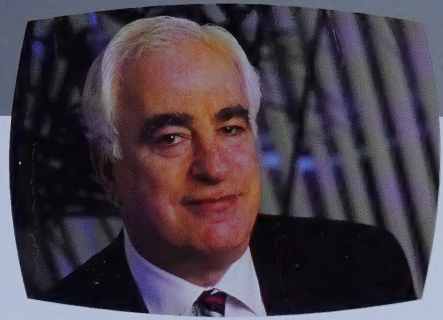
A The cash generated from earnings and the reductions in working capital resulted in positive cash generation of over \$93 million. The dramatic reductions in the prime borrowing rate and the corresponding lower returns on the investment of excess cash meant the Company could realize significant savings in interest costs through the redemption of the 10% Senior Notes. During 2001, the Company redeemed \$14.8 million Canadian of the Senior Notes. The Company recorded a before tax charge of \$0.4 million to income as a result of the repurchase of the Senior Notes due to the write-off of deferred costs recorded at the time of the issue. The redemption also reduced our U.S. foreign exchange exposure.

Q You have announced that you will not be paying a common share dividend in the first quarter of 2002. Do you expect dividends to be reinstated during 2002?

A Dividends are a direct reflection of our earnings. Because of the charges we took in the fourth quarter of 2001, for the rationalization as a result of the A. J. Forsyth acquisition, we did not earn enough to meet the requirements for dividend payouts as set forth by our Senior Note. A \$0.05 dividend could have been paid excluding the restructuring charge; however, we anticipate this integration will significantly strengthen our B.C. operations. It is management's fervent wish to reinstate the dividend as quickly as possible.

Q One of your favorite measures is Return on Capital. What was it in 2001?

A The ability of the Company to attract either debt or equity capital over the long term is tied to the return we generate on that capital over the steel cycle. The fact is that in the worst market the steel industry has seen in decades, the Company generated a double-digit return on ending capital employed, even including the assets of our recent A. J. Forsyth acquisition of \$36 million. In my opinion this 11.4% return on capital is very favorable in these market conditions and is a measure of the versatility and adaptability the Company has consistently demonstrated.



The fact is that in the worst market the steel industry has seen in decades the Company generated a double-digit return on ending capital employed.

Q A. J. Forsyth was the first service center acquisition by the Company in several years. Why was A. J. Forsyth acquired?

A The Russel Metals service center franchise in Canada is our most prominent asset and would be almost impossible to duplicate. The A. J. Forsyth acquisition further strengthens this franchise, providing a profitable foundation to further grow our operations in British Columbia. As the consolidation in the U.S. service center industry continues to unfold, we have been struck by the difficulty of attaining a meaningful market share throughout the United States. For example, the largest national player who claims a market share of less than 10% in the U.S., while large in total dollars, faces significant competitors on a region-by-region basis. Russel Metals by comparison, has a major presence in most of the Canadian markets, and Management feels that maintaining and growing from that strong position should be the primary strategic goal of our acquisition policy for service centers. A. J. Forsyth, a pre-eminent performer in British Columbia, provides this strategic fit and was acquired for cash and assumed debt of \$36 million.

Q Spartan Steel was the second acquisition in the last two years in the energy business segment. Why was Spartan Steel acquired?

A Spartan Steel is a small U.S. niche player in the line pipe product area that will operate as a branch of our Pioneer Pipe operation. The Spartan acquisition that was acquired for cash and assumed debt totaling \$6.3 million is expected to be accretive to earnings in the first year. Last year's acquisition, Triumph Tubulars, experienced strong results in 2001 and was immediately accretive.

We said... be patient.

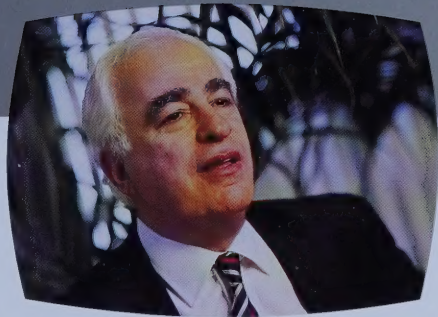
Q The Company experienced some non-operating charges in the year. What was their impact?

A During the sector consolidation, the Company has patiently remained on the sidelines, strengthening the balance sheet while waiting for acquisitions that we believe will strengthen our performance. Over the past several years, there have been numerous excellent companies sold at prices we did not believe were supportable over the course of a cycle. The well-publicized filing for bankruptcy protection by the second largest publicly held service center operation in the United States, and the company most responsible for the run-up in goodwill premiums, further validates the Company's policy of patience. Early in 2001, we attempted to acquire a significant service center operation in the United States, which was not successful as we were unwilling to increase our offer to match a significantly higher last minute winning bid. This unsuccessful acquisition attempt resulted in a one-time before tax charge to income of \$1.7 million. We view this decision as a strong illustration of Management's commitment to our business model. We are not willing to complete acquisitions at any cost.

The foreign exchange loss recorded in the year reflects the significant loss the Canadian dollar suffered against the U.S. dollar. Our net assets located in the United States are hedged by the U.S. denominated long-term debt, but a small exposure remains. The Canadian dollar declined against the strong U.S. dollar during 2001 resulting in the \$1.4 million before tax charge to income.

Q What was the reason for the sale of Total Distributors, one of the energy segment operations?

A The Total Distributors operations in Tulsa and Houston were unsuccessfully competing in the heat exchanger tubing market. The heat exchanger market was contracting and was serviced by too many participants. The sale of this money-losing operation to a competitor resulted in a before tax charge of \$6.0 million. The Company is prepared to exit an operating area if the return on capital is consistently below our target. In the last several years, the Company has closed down or rationalized Total Distributors, two of the import/export operations and several of our service center operations. These decisions have resulted in permanent capital reductions and further emphasize the Company's commitment to continuously improving our portfolio of operating units.



2 002 is a new year and there are positive indications that steel pricing trends will finally begin to turn positive. The recent trade rulings and the necessity for the steel mills to return to profitability can reasonably be expected to generate price increases during the first half of 2002, even at current demand levels.

Q Do you envision any growth for the Company in the United States?

A Absolutely. We will continue to strengthen our existing U.S. assets in the energy and import/export sector should the opportunity present itself, and we do not rule out acquiring additional service center assets.

Q You have had a very stable senior management team. Would you like to comment on the changes made during 2001?

A Certainly. We lost our material purchasing manager to a more senior position outside the industry, and we are pleased to have added David Halcrow as Vice President Purchasing and Inventory Management. David was formerly with a large Canadian steel mill. David brings a wealth of experience in the industry and in-depth knowledge of supply chain management. We welcome David to the position.

I would also like to welcome Duncan Thomas, the President of A. J. Forsyth, and Geoff Ridder, the President of Spartan Steel, and all the employees of both companies to Russel Metals. Duncan and Geoff lead proven successful management teams whose operations should be immediately accretive to earnings.

Q Your favorite subject, e-commerce, what is new?

A Well, all the Vertical Portals have either exited the market or are trying to reinvent themselves as software suppliers. The new trend is for steel mills to try and enter the distribution business via e-commerce. Only time will tell if they will be successful.

At Russel Metals, we consider the Internet to be a vehicle to enhance our Supply Chain Management structure, and our focus will be to continually expand in this area.

It's about commitment.

Q Did you personally purchase more shares in 2001?

A As I have stated in prior annual reports, since becoming President of Russel Metals I have invested 25% of my total after tax compensation into common shares of Russel Metals. My commitment to the Company is reflected in my overall holdings, which increased in 2001 by 176,500 common shares to 590,165 or 1.6% of the total common shares outstanding. I believe the current low share valuation continues to make Russel Metals an outstanding investment. Brian Hedges, our Chief Financial Officer, also increased his share ownership to 109,100 common shares and 4,000 preferred shares. Members of the Board of Directors and three senior executives of the Company currently own 2.4% of the total common shares outstanding, up from virtually zero in 1997 when the current Management and Board of Directors assumed their present positions.

Q What is your forecast for 2002?

A If you had asked me this question in late 2001, it would have been difficult to reply positively with any conviction given the uncertainty that existed in the marketplace. Steel price increases announced by the mills were not being achieved due to a lack of discipline in the market by those same mills. In addition, the customer demand critical to a recovery showed no sign of improving.

However, 2002 is a new year and there are positive indications that steel pricing trends will finally begin to turn positive. The recent trade rulings and the necessity for the steel mills to return to profitability can reasonably be expected to generate price increases during the first half of 2002, even at current demand levels. It is not clear that there will be an improvement in demand levels, but, if this does occur there could be substantial increases in the price of steel, and our service center and import/export segments would then experience a substantial increase in their operating profits.

The energy segment outlook is currently more uncertain due to the future levels of oil and gas prices, which clearly impact drilling activity and, in turn, our energy segment results. At current oil and gas prices, the energy segment results are anticipated to be lower in 2002.

Management Priorities

**Be a sector leader
in return on capital
throughout the steel cycle**

**Constantly optimize
the Company's
application of capital**

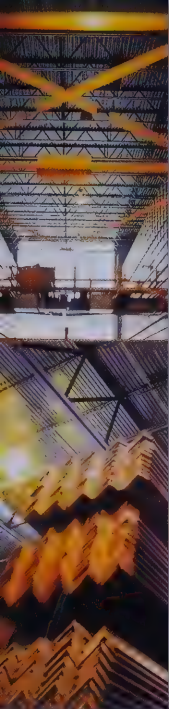
**Grow the Company's
foundation through
prudent acquisitions**

**Provide leadership
for employees through
progressive health
and safety practices**

**Provide shareholders
with superior common
share dividend yield**

Accomplishments

- ▶ Generated an 11.4% return on ending capital, a positive result in an exceptionally weak year for the steel industry.
- ▶ Net working capital employed in the business reduced by \$54.9 million in line with lower revenues.
- ▶ Cash from operations of \$38.2 million generated.
- ▶ During 2001, the net assets employed reduced by \$12.4 million from the sale of underperforming energy sector operation.
- ▶ Closed or divested several service center locations, freeing up \$4.8 million of capital.
- ▶ Acquired A. J. Forsyth service center operations in British Columbia, Canada and Spartan Steel in Colorado, U.S.
- ▶ Walked away from significant U.S. service center acquisition when a third party dramatically bid up the price.
- ▶ Accelerated health and safety programs to proactively manage all health and safety issues and generate performance improvements.
- ▶ Dividends of \$0.20 per share were declared, generating a yield of 5.6% on the year-end share price of \$3.60.



Service Centers

Through a strong network of service centers, Russel Metals provides processing and distribution services to a broad base of approximately 15,000 end users in a wide variety of industries, including machinery and equipment manufacturing, construction, shipbuilding and natural resources, such as mining and petroleum. The service center network includes 45 Canadian and 5 U.S. locations.

The Company's network of service centers carries a full line of metal products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. Russel Metals purchases these products primarily from producers in North America and packages them for end users who typically require products in quantities that are smaller than the economic minimum order available from producers.

Russel Metals service center operations provide specialized processing services to satisfy specifications established by end users. By providing these services, as well as by offering inventory management and just-in-time delivery, Russel Metals enables end users to reduce their overall production costs and decrease capital required for raw materials and metals processing equipment.

Canadian Operations Russel Metals operates one of the two largest service center operations in Canada based on revenue and tons sold. Russel Metals' Canadian service centers sell plate, flat rolled carbon and general line steel products, as well as some stainless steel, aluminum and other non-ferrous specialty metal products.

The Company completed the acquisition of A. J. Forsyth during the fourth quarter of 2001. A. J. Forsyth operations included six facilities in British Columbia and one in the Yukon Territory. The integration of the Russel Metals and A. J. Forsyth operations under the A. J. Forsyth trade name in British Columbia is well underway and the charge recorded in the fourth quarter reflects the costs of the integration of the Russel Metals operations. A. J. Forsyth provided the Company with a premier service center chain in British Columbia that will enhance our market share and profitability in British Columbia.

Within Canada, the service centers operate under the names Russel Metals, Métaux Russel, Drummond McCall and A. J. Forsyth. Heavy gauge flat rolled operations are conducted by B&T Steel and McCabe Steel, both located in Hamilton, Ontario.

U.S. Operations Russel Metals' U.S. service centers sell primarily general line carbon steel products. General line steel products consist of plate, structurals, bars, sheet, pipe, tubing and hollow structural steel tubing.

Russel Metals' U.S. service center operations are conducted under the Russel Metals – Bahcall Group and Baldwin International names. The Bahcall Group focuses primarily on the distribution of general line carbon products through three facilities in Wisconsin. Baldwin International distributes specialty alloy products through facilities in Ohio and Michigan.

At a Glance

- 12% sales decline to \$706.2 million
- cash flow from operations of \$54.7 million generated
- inventory reduction of \$19.1 million
- strengthened British Columbia presence with A. J. Forsyth acquisition
- one of the largest Canadian players with over 15,000 customers
- full line of ferrous and non-ferrous products including plate, bars, tubes, structurals and flat rolled
- strong asset utilization
- centralized purchasing and decentralized operations
- synergy with import/export business



**One of the largest
Canadian players with
over 15,000 end users**





Energy 2

The Company's energy sector distribution operations each occupy strong geographic niches and carry a more specialized and limited product line than the service centers. This segment distributes pipe, tube, valves and fittings primarily to the energy sector, from 5 Canadian and 2 U.S. locations.

These products are originally purchased from either the pipe processing arms of North American steel mills or from independent manufacturers of pipe and its accessories.

In the second quarter of 2001, the Company divested the operations of Total Distributors to a competitor and recorded a one-time charge of \$6.0 million before tax. Total Distributors was a distributor of heat exchange tubing, a shrinking and very competitive industry segment. The Company had experienced significant losses in this operation for the past two years.

Each business in this segment sells a distinct line of products. These businesses include:

Comco Pipe and Supply Company A distributor of pipe, valve and fitting products. Comco Pipe and Supply specializes in the supply and distribution of pipe and fluid handling products to the energy, construction, manufacturing, pulp and paper and mining industries. These products are distributed through facilities in Calgary and Edmonton, Alberta; Stonewall, Manitoba; and Guelph and Sarnia, Ontario.

Fedmet Tubulars A distributor of oil country tubular goods (which include casing and tubing) and line pipe and related products. Fedmet Tubulars' sales office is located in Calgary, Alberta.

Triumph Tubular & Supply An established distributor of oil country tubular goods. Triumph's sales office is located in Calgary, Alberta.

Pioneer Pipe A U.S. based distributor and processor of steel pipe products to the construction, oil and gas and ski industries in the Western United States. Pioneer Pipe has facilities in Aurora, Colorado and Lindon, Utah.

Spartan Steel Products A U.S. based supplier of steel pipe products to the energy sector. Spartan Steel is headquartered in Evergreen, Colorado.

At a Glance

- 9% sales increase to \$360.5 million
- 20% increase in operating profits to \$18.4 million
- cash flow from operations of \$29.3 million generated
- acquired Spartan Steel Products
- divested Total Distributors
- clear product focus – comprehensive stocks of pipe, tube, valves and fittings for the energy sector
- strong entrepreneurial culture
- diversity within the energy sector
- operations throughout North America

A Strong North American Import/Export Operation Russel Metals' import/export operations, through Wirth Steel located in Canada and the Sunbelt Group located in the U.S., primarily import foreign steel products into Canada and the United States. These operations also provide the Company's other business segments with valuable insight regarding international pricing trends and their potential impact in North America.

Revenues from these operations may vary substantially from year to year, depending primarily on general economic conditions both in North America and in the export markets served by these operations. The operating results generated in 2001, while down to \$14.2 million, were exceptional given the North American trade actions and uncertainty in the steel market.

Specializing in Imports into North America The Company specializes in the import into North America of carbon steel, plate, beams, channel, flat rolled products, rail and pipe products. Sales commitments for a significant portion of these products are generally obtained prior to their purchase or while the product is in transit. Products for which sales commitments have not been obtained are held in public warehouses for sale to North American service centers and other customers.

At a Glance

- 17% sales decline to \$321.5 million
- 30% decline in operating profits to \$14.2 million
- cash flow from operations of \$42.8 million generated
- inventory reductions of \$10.0 million
- excellent synergy with the service center business
- products include flat rolled, plate, structurals, pipe and other steel products
- flexible product sourcing
- pure working capital business
- never experienced an operating loss
- entrepreneurial culture





Management's Discussion and Analysis

For the year ended December 31, 2001

Brian R. Hedges

Executive Vice President and Chief Financial Officer

The following management's discussion and analysis of financial condition and results of operations of Russel Metals Inc. and its subsidiaries (Russel Metals or the Company) provides information to assist the reader and should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2001 including the notes thereto.

Statements contained in this document that relate to Russel Metals' beliefs or expectations as to certain future events are not statements of historical fact and are forward-looking statements. Russel Metals cautions readers that there are important factors, risks and uncertainties, including but not limited to economic, competitive and governmental factors affecting Russel Metals' operations, markets, products, services and prices that could cause the Company's actual results, performance or achievements to be materially different from those forecasted or anticipated by Russel Metals in such forward-looking statements. All dollar references in this report are in Canadian dollars unless otherwise stated.

Results of Operations

The following table provides a summary of revenues, gross margins (revenue minus cost of sales) as a percentage of revenues and operating profits (revenue minus cost of sales and operating expenses excluding corporate expenses and interest expense) for Russel Metals' operating segments. The table shows the segments as they are reported to management and they are consistent with the segmented reporting in Note 13 to the 2001 Consolidated Financial Statements.

Russel Metals is one of the largest metal distribution companies in North America based on revenues and tons sold. The Company conducts business primarily in three metals distribution business segments:

- service centers;
- energy sector related pipe, tube, valves and fittings; and
- steel import/export.

(in thousands of dollars, except percentages)	2001	2000	1999	2001 Change as a % of 2000	2000 Change as a % of 1999
Segment Revenues					
Service center distribution	\$ 706,173	\$ 804,043	\$ 760,568	(12.2%)	5.7%
Energy sector distribution	360,515	331,383	274,519	8.8%	20.7%
Steel import/export	321,454	385,355	369,285	(16.6%)	4.4%
Other	14,367	10,197	11,020	40.9%	(7.5%)
	\$ 1,402,509	\$ 1,530,978	\$ 1,415,392	(8.4%)	8.2%
Segment Operating Profits					
Service center distribution	\$ 19,352	\$ 36,064	\$ 39,501	(46.3%)	(8.7%)
Energy sector distribution	18,406	15,317	7,362	20.2%	108.1%
Steel import/export	14,175	20,126	17,811	(29.6%)	13.0%
Other income	6,177	2,876	3,513	114.8%	(18.1%)
Corporate expenses	(7,489)	(8,241)	(8,967)	9.1%	8.1%
Earnings from operations	\$ 50,621	\$ 66,142	\$ 59,220	(23.5%)	11.7%
Segment Gross Margins as a % of Revenues					
Service center distribution	24.9%	24.3%	25.2%		
Energy sector distribution	13.9%	14.2%	12.9%		
Steel import/export	9.4%	9.8%	10.1%		
Total	19.0%	18.8%	19.2%		
Segment Operating Profits as a % of Revenues					
Service center distribution	2.7%	4.5%	5.2%		
Energy sector distribution	5.1%	4.6%	2.7%		
Steel import/export	4.4%	5.2%	4.8%		
Earnings from operations	3.6%	4.3%	4.2%		

Service Center Distribution

a) Description of operations The Company provides processing and distribution services to a broad base of approximately 15,000 end users through a network of 45 Canadian and five U.S. locations. The Company's network of service centers carries a full line of products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. Russel Metals purchases these products primarily from steel producers in North America and packages them in accordance with end user specifications. The Company services all major geographic regions of Canada and selected regions in the United States. Within Canada, the service centers operate under the names Russel Metals, Métaux Russel, Drummond McCall and A. J. Forsyth. Heavy gauge flat rolled operations are conducted by B&T Steel and McCabe Steel, both located in Hamilton, Ontario. Russel Metals' U.S. service center operations are conducted under the names Russel Metals - Bahcall Group and Baldwin International. The Bahcall Group focuses primarily on the distribution of general line carbon products through three facilities in Wisconsin. Baldwin International distributes specialty alloy products through facilities in Ohio and Michigan.

In October 2001, the Company purchased the shares of A. J. Forsyth and Company Limited, a service center operation with six locations in British Columbia and one in the Yukon. The A. J. Forsyth operations strengthen Russel Metals' operations within the British Columbia region. A. J. Forsyth had sales of approximately \$65.9 million for the year prior to the acquisition date.

b) Factors affecting results

EXTERNAL -

- steel pricing fluctuates significantly throughout the cycle. Steel prices are influenced by overall demand and by product availability.
- demand is significantly affected by economic cycles with revenues and operating profit fluctuating with the level of general business activity in the markets served.
- product availability is affected by supply side management practiced by steel producers in North America and international supply and demand which impacts steel imports.
- government sanctions due to trade actions initiated either by steel mills or Federal Governments in North America.
- Canadian steel service centers, which represent a large portion of the service center distribution segment operations, are particularly affected by general economic conditions in Ontario and Quebec, and by pulp and paper, agriculture and resource sector activities in Western Canada, where demand for steel by the construction and capital goods sectors fluctuates considerably during the economic cycle.

INTERNAL -

- the Company has a strong network of branches across Canada, thus declines in demand in one region may be countered by higher demands in other regions.
- many employees, including management, receive bonuses based on bottom line results, thus a portion of compensation is variable and employees are motivated to maximize profitability.
- a large portion of the service center costs are fixed and are not reduced as volume declines, negatively impacting results when demand weakens.
- the Company monitors its inventory levels and endeavors to achieve above average inventory turns in order to position itself to react to pricing and supply changes in the market and to minimize holding losses and gains.
- knowledge of international pricing trends obtained by the steel import/export operations provides insight for pricing decisions.

c) Service center segment results – 2001 compared to 2000 Revenues for 2001 have decreased 12.2% due to lower volume and selling prices. Volume declines are most significant in British Columbia due to weaker demand in the pulp and paper industry and Ontario due to weaknesses in the manufacturing sector. Alberta was the only region with increased volume due to the strength of the oil and gas industry. Excess inventory positions at both the mills and our competitors affected market pricing in the first half of 2001. Selling prices declined in all regions excluding Alberta with the most significant decline in British Columbia, Ontario and the U.S. operations of Bahcall. Selling prices for Alberta showed a slight improvement.

Gross margins improved from 24.3% in 2000 to 24.9% in 2001. By maintaining lower inventory levels than our competitors, Russel Metals was able to capitalize on low-priced purchases resulting in gross margin improvements compared to 2000.

The recession affecting the U.S. Midwest has resulted in significant losses at Bahcall during 2001. In an effort to reduce costs and minimize losses, the Company disposed of the inventory and fixed assets of the Eagan, Minnesota operation for book value in October 2001.

Service Center Revenues
(\$ billion)



Service Center Operating Profits
(\$000)



Service center operating profits for the year ended 2001 decreased by 46.3% compared to 2000. This decline is a result of the significant volume and selling price declines. Operating expenses for 2001, adjusted for expenses of A. J. Forsyth in 2001, were \$6.6 million, or 4.1% lower than 2000.

Operating profits as a percentage of revenues for 2001 were 2.7% compared to 4.5% for 2000 due to operating expenses not declining as significantly as revenues.

d) Service center segment results – 2000 compared to 1999 Revenues for 2000 increased 5.7% compared to 1999, primarily related to increased selling prices.

Selling price per ton for 2000 increased compared to the selling price for 1999; however, the average cost increased more than the selling price in 2000 compared to 1999, resulting in a gross margin percent decline from 25.2% for 1999 to 24.3% for 2000.

The unprofitable performance of Bahcall and Copco in the United States had a significant impact on already soft Canadian service center results. The Copco operation was closed in July 2000.

The Company's volumes in 2000 were stronger than 1999 for the first half of the year. The third quarter of 2000 was comparable to 1999, and the fourth quarter showed a significant decline in all regions resulting in total volumes for the 2000 year below those of 1999. Volume declines in Atlantic, Quebec and Ontario regions and the United States were offset by increases in Western Canada. The selling price per ton was stable for most of the 2000 year; however, price cuts late in the year by the mills in most carbon products resulted in lower selling prices.

Service center operating profits decreased by 8.7% in 2000 compared to 1999. Operating expense dollars increased \$7.6 million in 2000 compared to 1999; however, they remained constant as a percentage of revenues at approximately 20%. Operating profits as a percentage of revenues for 2000 were 4.5% compared to 5.2% in 1999 due to lower gross margins.

Energy Sector Distribution

a) Description of operations These operations distribute pipe, tube, valves and fittings, primarily to the energy sector in Western Canada and the Western United States, from five Canadian and two U.S. locations. Russel Metals purchases these products either from the pipe processing arms of North American steel mills or from independent manufacturers of pipe and its accessories. In June 2001, the Company sold the operations of Total Distributors Supply Corporation, its U.S. operation serving the petrochemical and heat exchanger industries. The decision to sell the Total Distributors' assets and record a pre-tax loss of \$6.0 million was based on the significant losses that had occurred in this operation due to the very competitive heat exchanger tubing market it served. In August 2001, the Company purchased Spartan Steel, a pipe distributor in the midwest and southern United States. The Spartan operations complement the Pioneer Pipe business. Spartan had sales of approximately US \$15 million for the year prior to the acquisition date.

b) Factors affecting results

EXTERNAL –

- affected by economic cycles.
- significantly affected by oil and gas pricing which impacts oil rig count and subsequent drilling activities.
- Canadian operations affected by U.S. dollar since some products are sourced outside Canada.
- pricing is influenced by overall demand and by product availability.
- government sanctions due to trade actions initiated either by steel mills or Federal Governments in North America.

**Service Center
EBIT to Sales
(%)**



**Energy Sector
Revenues
(\$ billion)**



INTERNAL -

- low fixed costs due to a large portion of inventory stored at locations rented on a usage basis.
- employees' compensation is highly variable as it is based on profits.

c) Energy sector distribution results – 2001 compared to 2000 Energy sector revenues increased 8.8% for 2001 compared to 2000. The increase in revenue for the businesses excluding Total Distributors, which was divested in June 2001, is 13.7%. Approximately 60% of the revenue increase relates to the acquisition of Triumph Tubular effective September 1, 2000 and Spartan Steel effective August 15, 2001. The strong oil and gas prices through the first three quarters of 2001 have resulted in higher volumes in 2001 compared to 2000 for the other businesses. The oil country tubular operations in Western Canada and Western United States both had significant declines in volume during the fourth quarter of 2001 due to general economic uncertainty, a late winter freeze and weaker oil and gas pricing.

Energy sector operating profits improved by 20.2% in 2001 compared to 2000. Total Distributors, our U.S. operation serving the petrochemical and the heat exchanger industries, was sold in June 2001, which had a negative impact on revenue; however, it positively impacted operating profits. The operating profits increased 1.3% for the businesses, excluding Total Distributors' losses from each year. The operating profits for the first nine months of 2001 were stronger than the same period in 2000; however, the fourth quarter was significantly lower than the fourth quarter of 2000.

d) Energy sector distribution results – 2000 compared to 1999 Energy sector revenues increased 20.7% in 2000 compared to 1999. The improved oil and gas prices resulted in continued stronger year over year activity in the oil country tubular operations. The acquisition of Triumph Tubular & Supply Ltd. effective September 1, 2000 accounts for a portion of the revenue increase. The oil country tubular operations in Western Canada and Western United States both have had significant volume increases compared to 1999. Our U.S. operations serving the petrochemical and the heat exchanger industries reported significant losses due to lower volumes and margins caused by competitive pressure and weak markets.

Operating profits in the energy sector as a percentage of revenues improved from 2.7% for 1999 to 4.6% for 2000 due to improved margins and lower expenses as a percentage of revenues in 2000. Winter drilling activity was strong both in the first and fourth quarters of 2000.

Steel Import/Export

a) Description of operations Russel Metals' steel import/export business imports foreign steel products into Canada and the United States and exports steel from Canada and the United States. It also provides the Company's other business segments with valuable insight regarding international pricing trends and their potential impact in North America.

The main steel products sourced by the import/export operations are structural, plate, coils, pipe and tubing.

b) Factors affecting results

EXTERNAL -

- government sanctions due to trade actions initiated either by steel mills or Federal Governments in North America.
- mill capacity by product line in North America.

**Energy Sector
Operating Profits**
(\$000)



**Energy Sector
EBIT to Sales**
(%)



**Steel Import/Export
Revenues**
(\$ billion)



- purchases are mainly in U.S. dollars and thus the strong U.S. dollar against the Canadian dollar will impact profits.
- steel pricing is influenced by overall demand and by product availability.
- demand is affected by economic cycles.
- supply side management practiced by steel producers in North America and international supply and demand which impacts steel imports and affects product availability significantly.

INTERNAL –

- operating costs are variable with volume, since inventory is stored in public warehouses and employees are primarily compensated based on earnings.
- inventory is sourced throughout the world, including North America, providing flexibility for supply.

c) Steel import/export results – 2001 compared to 2000 Steel import/export revenues decreased 16.6% for 2001 compared to 2000. The oversupply of carbon products in North America and the weakness in demand at the service center level impacted 2001 revenues. Volumes and selling prices for 2001 were lower than 2000. Gross margin percents are at a more normal level compared to those of 2000 and 1999.

Steel import/export operating profits decreased by 29.6% in 2001 compared to 2000. The lower volume was the most significant contributor to this; however, a bad debt write-off of \$1.3 million related to a well-publicized large U.S. service center who filed for Chapter 11 also impacted the expenses for 2001.

d) Steel import/export results – 2000 compared to 1999 The revenues and gross margins for 2000 and 1999 were positively impacted by a temporary shortage of wide flange beams, which impacted approximately six months of each of 2000 and 1999.

The operating profit increase in 2000 compared to 1999 was mainly related to high margins on material that was in short supply in North America during the first half of 2000.

Other – 2001 compared to 2000

Other revenue and income represents the results of the coal handling terminal in Thunder Bay. Revenue for 2001 was 40.9% higher than 2000 due to increased volumes of coal and potash handled. The higher volumes resulted in 2001 operating profits more than double the 2000 operating profits.

Consolidated Results – 2001 compared to 2000

Earnings from operations were \$50.6 million, a decline of 23.5% from \$66.1 million in 2000. The lower volumes and selling prices in the service center and import/export operations were partially offset by increased volumes in the energy sector. In addition, Thunder Bay Terminals, our coal handling operation, had a very strong year. Consolidated revenues for the entire Company decreased by 8.4%, to \$1,402.5 million, in 2001 compared to 2000.

**Steel Import/Export
Operating Profits**
(\$000)



**Steel Import/Export
EBIT to Sales**
(%)



Management's Discussion and Analysis

The following table discloses earnings from ongoing operations net of income taxes and unusual items net of income taxes. Earnings per common share are also disclosed to assist the reader in determining results from ongoing operations.

(in thousands of dollars except per share data)	2001	2000	1999
Earnings from operations	\$ 50,621	\$ 66,142	\$ 59,220
Restructuring provision	(2,400)	—	—
Foreign exchange loss	(1,383)	—	—
Debt repurchase costs	(391)	—	—
Interest expense	(23,017)	(23,849)	(19,343)
Income tax expense on above	(9,876)	(18,033)	1,979
Income tax rate adjustment	378	(360)	—
Earnings before unusual items	13,932	23,900	41,856
Unusual items			
Loss on sale of business	(6,000)	—	—
Acquisition costs	(1,688)	—	—
Income taxes recoverable on unusual items	2,364	—	—
	(5,324)	—	—
Net earnings	\$ 8,608	\$ 23,900	\$ 41,856
Basic and diluted earnings per common share before unusual items	\$ 0.31	\$ 0.53	\$ 0.74
Basic and diluted earnings per common share	\$ 0.17	\$ 0.53	\$ 0.74

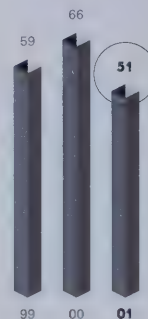
The acquisition of A. J. Forsyth was completed to strengthen the Russel Metals' operations in British Columbia. The cost of restructuring the Russel Metals' operations, including employee termination costs, relocation of equipment and closure of plants, is estimated at \$2.4 million, based on the plan prepared by management. The first steps in the plan commenced in December 2001. The cost of restructuring the A. J. Forsyth operations was considered at the time of acquisition and formed part of the purchase consideration.

During 2001, the Company recorded a foreign exchange loss of \$1.4 million related to U.S. denominated debt that did not fully hedge the Company's net investment in foreign subsidiaries. This exchange loss consists of an unrealized loss of \$1.1 million that will change based on movement in the Canadian dollar against the U.S. dollar. A loss of \$0.3 million was realized related to the Company purchasing U.S. funds during the second quarter of 2001 to reduce its unhedged U.S. debt exposure and the repurchase of U.S. Senior Notes in the fall of 2001.

Debt repurchase costs relate to the repurchase of US \$9.4 million of 10% Senior Notes in 2001. This cost includes \$0.3 million for the write-off of deferred issue costs recorded at the time of the issue of the Senior Notes.

In June 2001, the Company sold the inventory and fixed assets of Total Distributors, its Tulsa-based energy sector operation, for cash of \$9.6 million. This transaction resulted in a pre-tax operating loss on the sale of the business of \$6.0 million. The decision to sell these assets below book value was based on the significant losses that had occurred in this operation due to the very competitive heat exchanger tubing market it served.

Earnings from Operations
(\$000)



In May 2001, the Company announced that it had been unsuccessful in finalizing an agreement for the acquisition of a U.S. service center operation. The due diligence process and legal expenses resulted in a write-off of costs of \$1.7 million.

Consolidated interest expense decreased \$0.8 million to \$23.0 million for 2001 compared to 2000. This decrease is due to lower debt outstanding offset by higher exchange rates on U.S. denominated long-term debt for 2001 compared to 2000. The majority of the interest expense relates to the fixed term 10% Senior Notes and, therefore, no benefit was experienced from lower prime borrowing rates available through the bank credit facility.

Income taxes for 2001 were \$7.1 million compared to \$18.4 million for 2000. This decrease relates primarily to lower earnings. In the second quarter of 2001, the Company recorded income taxes recovered of \$0.4 million relating to an Ontario tax rate adjustment enacted in 2001, applicable to timing differences on the balance sheet.

Basic earnings per share for 2001 was \$0.17 compared to \$0.53 for 2000. Earnings per share before unusual items was \$0.31 for 2001 compared to \$0.53 in 2000.

The weighted average number of common shares outstanding for 2001 was 37,981,501 compared to 41,068,870 for 2000. The reduction relates to common shares purchased under a substantial issuer bid on March 31, 2000 and under normal course issuer bids during 2000.

Consolidated Results – 2000 compared to 1999

Earnings before interest and income taxes increased by \$6.9 million to \$66.1 million for 2000, an increase of 11.7% compared to 1999, primarily due to higher volumes and margins in the energy sector and import/export operations. Consolidated revenues increased by 8.2%, to \$1,531.0 million, in 2000 compared to 1999 due to a combination of higher volumes and selling prices.

Consolidated interest expense increased \$4.5 million to \$23.8 million in 2000 compared to 1999. This increase is due to higher borrowing levels, higher short-term interest rates in 2000 compared to 1999 and the portion of the 9% Convertible Debentures in equity. The Company's common share purchases in 2000 used \$39.4 million of cash, which would have otherwise been available to reduce borrowings. The common shares purchased during 2000 and 1999 totaled \$51.9 million.

Income taxes for 2000 were \$18.4 million compared to a recovery of \$2.0 million for 1999. This increase relates to the recording of a full tax expense on Canadian earnings in 2000. The Company adopted the Canadian Institute of Chartered Accountants' new accounting standard for income taxes effective January 1, 2000, which re-established a portion of the income tax balances previously written off in 1996. Also, an additional tax expense of \$0.4 million was recorded in 2000 for a rate adjustment generated by the Canadian tax reduction from the Federal budget decreases in corporate income tax rates which reduced the benefit from prior period future tax assets. In 1999, the Company recorded a recovery of \$4.5 million related to current timing differences in Canadian operations. The increased tax expense is predominantly a utilization of balance sheet tax assets and did not result in a significant cash outflow.

Basic earnings per share for 2000 was \$0.53 compared to \$0.74 for 1999. The decrease is primarily a result of the higher tax expense. A lower weighted average number of shares outstanding reduced the impact of the higher income tax expense.

The weighted average number of common shares outstanding for 2000 was 41,068,870 compared to 49,573,917 for 1999. The reduction relates to common shares purchased under a substantial issuer bid in March 2000 and under normal course issuer bids during 1999 and 2000. At December 31, 2000, 37,981,501 common shares were outstanding.

Interest Expense

The following table shows the components of interest expense.

Interest

(in thousands of dollars)	2001	2000	1999
Long-term debt interest	\$ 21,396	\$ 21,533	\$ 19,077
Short-term debt interest	1,621	2,316	266
Total interest	\$ 23,017	\$ 23,849	\$ 19,343

The long-term debt interest expense relates to the 10% Senior Notes and the 8% Debentures. The Company currently has no floating rate long-term debt. The decrease in the long-term debt interest relates to \$0.4 million lower interest costs due to the repurchase of 10% Senior Notes in 2001 offset by higher foreign exchange on the U.S. denominated debt interest. In 2001, the Company used cash on hand to repurchase US \$9.4 million of Senior Notes which will reduce long-term debt interest expense by approximately \$1.5 million annually.

The 1999 long-term debt interest is lower than 2000 since in 1999 the Company had a different borrowing structure and \$2.9 million of interest on its 9% Convertible Debentures was included as a distribution.

Coverage Ratio

Russel Metals' coverage ratio for 2001 is lower than 2000 and 1999 due to the lower earnings from operations. The Company's ability to meet interest payments for the next two years remains strong due to the fact that the Company has cash on hand. The coverage ratios set forth below are calculated using earnings from operations before interest, income taxes, depreciation and amortization (EBITDA) excluding restructuring provision, foreign exchange loss, debt repurchase costs and unusual items.

Coverage Ratio

(in thousands of dollars, except ratios)	2001	2000	1999
EBITDA, as adjusted	\$ 65,284	\$ 80,387	\$ 72,751
Interest expense	23,017	23,849	22,228
Coverage ratio	2.8x	3.4x	3.3x

The 1999 interest expense includes interest on the 9% Convertible Debentures shown as a distribution in retained earnings.

Capital Expenditures Capital expenditures during 2001 were \$8.2 million compared to \$13.0 million in 2000. Russel Metals' capital expenditures are mainly related to maintenance capital, the purchase of additional processing equipment across a broad base of the operations and upgrades to its existing facilities and computer systems. The current economic slowdown is impacting service centers, thus capital expenditures for 2001 were below the amount spent in 2000. Depreciation expense was \$13.0 million for 2001 and \$11.9 million for 2000.

Liquidity The Company manages its cash position based on bank borrowings net of cash. Overall cash generated was \$46.7 million in 2001, determined by adding the decrease in bank indebtedness to the increase in cash. Cash generated from operations before working capital changes was \$38.2 million. The improvement in net working capital generated by lower revenues resulted in cash generated from working capital of \$54.9 million for 2001.

Interest Expense
(\$000)



EBITDA to Interest
(\$000)



The sale of businesses in 2001 generated \$10.4 million in cash.

The acquisition of A. J. Forsyth in October 2001 and Spartan Steel in August 2001, including assumed bank debt, consumed \$42.4 million in cash.

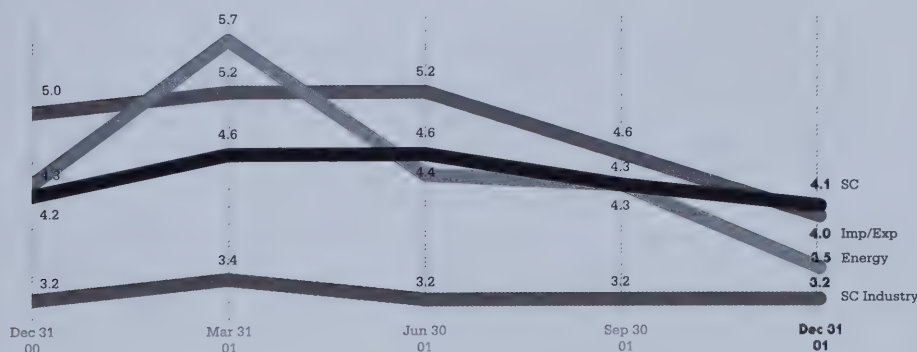
In addition, the Company utilized cash of \$14.8 million to repurchase Senior Notes in September and October 2001, \$8.2 million for capital expenditures and \$9.8 million for common and preferred share dividends.

The balances disclosed in the cash flow are adjusted to remove the non-cash component related to foreign exchange rate increases impacting inventory, accounts receivable and accounts payable of the U.S. operations. Assets sold as part of the sale of Total Distributors and assets purchased as part of the A. J. Forsyth and Spartan Steel acquisitions are also shown separately based on balances at the date of the transaction.

In 2000, the cash position was reduced \$11.1 million and bank borrowings increased \$16.0 million resulting in an overall cash usage of \$27.1 million. Cash generated from operations before working capital changes was \$54.0 million and proceeds from the sale of non-core assets were \$42.3 million. Operations utilized cash of \$59.3 million to fund increased working capital, mainly accounts receivable and inventories to support increased sales. In addition, \$39.4 million of cash was utilized to purchase 7.1 million common shares under a substantial issuer bid and 2.4 million shares under a normal course issuer bid. The resumption of a common share dividend utilized \$5.9 million. Capital expenditures accounted for \$13.0 million, and \$9.7 million was utilized for the purchase of Triumph Tubular & Supply including bank debt assumed.

Inventory is a major component of the Company's working capital and inventory levels impact liquidity. The inventory turns calculated using the cost of sales for the quarter annualized and ending inventory are as follows:

Inventory Turns



Quarters Ended

	Dec. 31, 2001	Sept. 30, 2001	June 30, 2001	Mar. 31, 2001	Dec. 31, 2000
Service center distribution	4.1	4.3	4.6	4.6	4.2
Energy sector distribution	3.5	4.3	4.4	5.7	4.3
Steel import/export	4.0	4.6	5.2	5.2	5.0
Total	3.9	4.4	4.7	5.1	4.4

The Company's inventory turns for 2001 improved early in the year, but due to lower sales volumes in the fourth quarter, the turns declined at year end. Total inventories have declined \$25.6 million since December 31, 2000. The service centers inventories at December 31, 2001 were \$8.8 million lower than the inventories at December 31, 2000, including the A. J. Forsyth inventory in the December 31, 2001 balance. Proactive actions taken in mid-2000 in anticipation of lower volumes and excess inventory at competitors and the mills allowed this reduction to be achieved and turns to remain at levels comparative to 2000. Inventory levels in the energy sector were down \$6.8 million from December 31, 2000 to December 31, 2001, mainly due to the sale of Total Distributors, offset partially by the inventory at Spartan Steel. The import/export inventory decreased \$10.0 million at December 31, 2001 compared to December 31, 2000, related to lower demands.

The service center inventory turns for the quarter ended December 31, 2001 were 4.1 compared to industry turns estimated to be 3.2 for the three months ended November 30, 2001 as derived from the monthly Business Conditions Report published for the United States by the Steel Service Center Institute. It is a goal of Russel Metals' management to achieve inventory turns at significantly higher levels than the industry norm.

Debt and Credit Facilities The Company has two long-term debt instruments. The \$30 million 8% Subordinated Debentures mature in 2006. The 10% Senior Notes mature in 2009. In September and October of 2001, the Company repurchased US \$9.4 million of its 10% Senior Notes in the market at face value. The balance outstanding at December 31, 2001 is US \$115.6 million. The Canadian dollar equivalent of the Senior Notes fluctuates with the exchange rate. At December 31, 2001, the long-term debt balance of \$214.1 million is only \$3.4 million less than at December 31, 2000 due to the significant increase in the U.S. exchange rate.

The Company believes that the repurchase of the 10% Senior Notes is an appropriate use of cash on hand due to the availability of cash and unused operating lines of credit and the high interest rate.

Bank Credit Facilities

(\$ millions)	Canadian	U.S.	Total
Bank loans	\$ —	\$ 0.9	\$ 0.9
On deposit	14.5	3.6	18.1
Net borrowings (cash)	(14.5)	(2.7)	(17.2)
Letters of credit	10.5	2.9	13.4
	\$ (4.0)	\$ 0.2	\$ (3.8)
Facility availability	\$ 231.4	\$ 55.7	\$ 287.1

Russel Metals has a bank credit facility with a syndicate of Canadian and U.S. banks. The \$253.8 million facility may be extended for an additional one year period on each anniversary, with the consent of the banks. Russel Metals has extended the facility to June 19, 2005. Russel Metals is entitled to borrow under this facility, on a revolving basis, up to an amount equal to the sum of specified percentages of eligible accounts receivable and inventories, to a maximum of \$253.8 million. At December 31, 2001, Russel Metals was entitled to borrow \$231.4 million, including letters of credit. At December 31, 2001, Russel Metals had no borrowings and had \$10.5 million in letters of credit under this facility. At December 31, 2000, Russel Metals had borrowings of \$12.0 million and \$9.7 million in letters of credit under this facility.

In addition, certain U.S. subsidiaries of Russel Metals have their own one year bank credit facility. The maximum borrowing under this facility is US \$35.0 million. At December 31, 2001, these subsidiaries had borrowings of US \$0.5 million and letters of credit of US \$1.8 million compared to borrowings of US \$8.0 million and letters of credit of US \$3.0 million at December 31, 2000.

Long-Term Debt
(\$ million)



Based on Russel Metals' current financial position and management's estimate of the results of operations prepared for internal planning purposes, Russel Metals believes that it will generate a sufficient amount of cash flow from operations to pay all of its preferred share dividends, interest obligations on its indebtedness and operating costs as they become due during the next two years.

Dividends and Share Capital The ability to pay dividends on common shares is impacted by restrictions associated with the 10% Senior Notes due June 2009. Dividends on common shares and the repurchase of common and preferred shares are considered to be restricted payments under the Note Indenture. The Senior Notes do not restrict preferred share dividends. At December 31, 2001, the Company had \$1.7 million available for restricted payments. This amount is not sufficient to fund the normal \$0.05 per share dividend on common shares, and a decision was made not to declare a common share dividend in the first quarter of 2002.

The ability to make restricted payments is adjusted quarterly by 50% of the quarterly net income or loss if the cumulative net income from March 31, 1999 is positive, or 100% of the quarterly net income or loss if the cumulative net income from March 31, 1999 is negative. Net income is adjusted for certain exclusions that include: extraordinary items, gains or losses on asset dispositions, such as the loss on sale of Total Distributors, and unrealized foreign exchange gains and losses.

During the year ended December 31, 2001, no common shares have been repurchased. The Company renewed its normal course issuer bid in February 2001, which allows it to purchase up to 2,660,000 common shares during the year ending on February 23, 2002. The ability to repurchase share capital is impacted by the same restrictions discussed above under dividends.

The Company believes that reducing its share capital is beneficial to its shareholders. Since February 1999, the Company has purchased 13,074,235 common shares totaling \$51.9 million. During March 2000, the Company completed a dutch auction style substantial issuer bid. On March 31, 2000, the Company paid \$30 million to purchase 7,143,935 common shares at \$4.20 per share. Also, during 2000, 2,384,000 common shares were purchased at an average cost of \$3.83 through the normal course issuer bid.

Outlook The Company's service center segment is starting to see an up-tick in pricing from its suppliers. This is a direct reflection of the fact that over 25 steel mills and service centers in North America are either in bankruptcy or insolvency proceedings. Furthermore, with the initiation of the U.S. Federal Government section 201 action against steel imports and the continual trade actions brought by the steel mills in Canada, and with the capacity reduction of approximately 17 million tons due to mill shutdowns, production capacity is beginning to come in line with perceived demand.

We have yet to see a significant increase in demand, but management is cautiously optimistic that by the second half of 2002 demand will be on the upswing.

The import/export operations showed more strength than anticipated in 2001 and are expected to be unchanged in 2002.

The energy sector operations have been impacted by lower oil and gas pricing, and management expects levels similar to those prevalent in the second half of 2001 to continue through 2002.

We currently anticipate that earnings for 2002 will resemble earnings prior to unusual items, restructuring and acquisition costs that were reported in 2001.

**Weighted
Average Shares**
(million)



Shareholders

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors of the Company. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial system.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared.

The Company's Audit Committee is appointed annually by the Board of Directors and is comprised of Directors, all of whom are neither employees nor officers of the Company. The Audit Committee meets with management as well as with external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been independently audited by Deloitte & Touche LLP on behalf of the shareholders. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.



E. M. Siegel, Jr.

President and
Chief Executive Officer



Brian R. Hedges

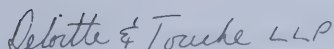
Executive Vice President and
Chief Financial Officer

To the Shareholders of Russel Metals Inc.

We have audited the consolidated balance sheets of Russel Metals Inc. as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for each of the years in the three year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the consolidated financial statements for each of the years in the two year period ended December 31, 2001, we conducted our audits in accordance with Canadian generally accepted auditing standards and auditing standards generally accepted in the United States of America. With respect to the consolidated financial statements for the year ended December 31, 1999, we conducted our audit in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles.

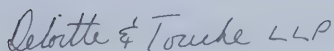


Chartered Accountants

Toronto, Ontario
February 1, 2002

Comments by Auditors for U.S. Readers on Canada – U.S. Reporting Differences

In the United States of America, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) outlining changes in accounting principles that have been implemented in the financial statements. During fiscal 2001, the Company adopted new Canadian accounting standards described in Note 2 to the financial statements.



Chartered Accountants

Toronto, Ontario
February 1, 2002

Consolidated Balance Sheets

At December 31 (\$000)

	2001	2000
Assets		
Current		
Cash	\$ 17,151	\$ 8,923
Accounts receivable	197,716	248,296
Inventories	265,417	290,991
Prepaid expenses and other assets	5,099	4,319
Income taxes recoverable	5,297	10,735
	490,680	563,264
Property, Plant and Equipment (Note 5)	109,039	99,247
Deferred Financing Charges	6,177	7,613
Goodwill	15,123	7,843
Future Income Tax Assets (Note 10)	12,653	11,292
Other Assets (Note 6)	3,197	5,198
	\$ 636,869	\$ 694,457
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (Note 7)	\$ —	\$ 21,234
Accounts payable and accrued liabilities	162,180	192,486
Income taxes payable	165	513
	162,345	214,233
Long-Term Debt (Note 8)	214,105	217,525
Pensions and Benefits (Note 14)	9,242	9,143
Future Income Tax Liabilities (Note 10)	4,459	5,501
	390,151	446,402
Contingencies and Commitments (Note 16)		
Shareholders' Equity		
Preferred shares (Note 11)	30,000	30,000
Shareholders' equity (Note 11)	216,718	218,055
	246,718	248,055
	\$ 636,869	\$ 694,457

On Behalf of the Board,



Director



Director

Consolidated Statements of Earnings and Retained Earnings

For the years ended December 31 (\$000 except per share data)

	2001	2000	1999
Revenues	\$ 1,402,509	\$ 1,530,978	\$ 1,415,392
Cost of sales and operating expenses	1,351,888	1,464,836	1,356,172
Earnings before the following	50,621	66,142	59,220
Restructuring costs (Note 3)	2,400	—	—
Foreign exchange loss (Note 12)	1,383	—	—
Debt repurchase costs	391	—	—
Interest expense – net (Note 9)	23,017	23,849	19,343
Loss on sale of business (Note 4)	6,000	—	—
Acquisition costs (Note 3)	1,688	—	—
Earnings before income taxes	15,742	42,293	39,877
Provision for (recovery of) income taxes (Note 10)	7,134	18,393	(1,979)
Net earnings for the year	8,608	23,900	41,856
Retained Earnings –			
Distributions			
Dividends on preferred shares	(2,250)	(2,250)	(2,250)
9% Convertible Debentures (Note 9)	—	—	(2,885)
	(2,250)	(2,250)	(5,135)
Earnings available to common shareholders	6,358	21,650	36,721
Dividends on common shares	(7,596)	(5,854)	—
Amount related to common shares purchased for cancellation	—	(8,944)	(1,097)
Retained earnings, beginning of the year	101,699	76,182	54,862
Adjustment for income taxes (Note 2)	—	18,665	—
Adjustment for pensions and benefits (Note 2)	—	—	(14,304)
Retained earnings, end of the year (Note 11)	\$ 100,461	\$ 101,699	\$ 76,182
Basic and diluted earnings per common share	\$ 0.17	\$ 0.53	\$ 0.74

Consolidated Cash Flow Statements

For the years ended December 31 (\$'000)

	2001	2000	1999
Operating activities			
Net earnings for the year	\$ 8,608	\$ 23,900	\$ 41,856
Depreciation and amortization	14,663	14,245	12,444
Future income taxes	3,503	15,449	665
Loss (gain) on sale of fixed assets	(113)	455	111
Restructuring costs	2,400	—	—
Foreign exchange loss	1,093	—	—
Debt repurchase/redemption costs	391	—	1,087
Loss on sale of business	6,000	—	—
Acquisition costs	1,688	—	—
Cash from operating activities before working capital	38,233	54,049	56,163
Changes in non-cash working capital items			
Accounts receivable	69,182	(17,277)	16,653
Inventories	36,772	(28,558)	77,263
Accounts payable and accrued liabilities	(46,328)	(3,802)	(8,872)
Current income taxes	(4,397)	(9,919)	—
Other	(323)	274	273
Change in non-cash working capital	54,906	(59,282)	85,317
Cash from (used in) operating activities	93,139	(5,233)	141,480
Financing activities			
Increase (decrease) in bank borrowing	(38,441)	15,964	(90,892)
Dividends on common shares	(7,596)	(5,854)	—
Distributions	(2,250)	(2,250)	(5,135)
Redemption/repurchase of long-term debt	(14,808)	—	(198,209)
Issue of long-term debt	—	—	184,050
Purchase of common shares	—	(39,444)	(12,481)
Deferred financing costs	(29)	(577)	(7,070)
Cash used in financing activities	(63,124)	(32,161)	(129,737)
Investing activities			
Purchase of fixed assets	(8,152)	(13,020)	(17,249)
Proceeds on sale of fixed assets	255	108	341
Purchase of businesses (Note 3)	(25,288)	(4,500)	—
Proceeds on sale of businesses (Note 4)	10,397	—	—
Proceeds from assets held for sale	—	42,335	(1,062)
Other	1,001	1,426	(6,429)
Cash from (used in) investing activities	(21,787)	26,349	(24,399)
Increase (decrease) in cash	8,228	(11,045)	(12,656)
Cash position, beginning of the year	8,923	19,968	32,624
Cash position, end of the year	\$ 17,151	\$ 8,923	\$ 19,968

1. Summary of Significant Accounting Policies

a) Principles of consolidation The consolidated financial statements include the accounts of Russel Metals Inc. and its subsidiary companies herein referred to as the Company. The reporting currency is Canadian dollars unless otherwise noted. All material inter-company balances, transactions and profits have been eliminated.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Material differences from accounting principles generally accepted in the U.S. are disclosed in Note 17.

b) Inventories Inventories are recorded at the lower of cost and net realizable value. Cost is determined on either an average cost basis or an actual cost basis depending on the business unit.

c) Property, plant, equipment and depreciation Property, plant, equipment and leasehold improvements are recorded at cost. Depreciation is provided on a straight-line basis at rates that charge the original cost of such assets to operations over their estimated useful lives. The rates used are 20 years for buildings, 10 years for machinery and equipment, 5 years for leasehold improvements and 2 to 5 years for computer equipment. Depreciation expense was \$12,993,000 in 2001 (2000 – \$11,863,000; 1999 – \$9,987,000).

d) Deferred financing charges and amortization Costs incurred that relate to financing are deferred and amortized over the period of the related financing. Deferred financing charges are recorded at cost less accumulated amortization. Amortization of deferred financing charges was \$1,237,000 in 2001 (2000 – \$1,304,000; 1999 – \$1,382,000).

e) Goodwill and amortization Goodwill represents the excess purchase price paid on acquisitions over the value assigned to identifiable net assets acquired. Goodwill on acquisitions prior to July 1, 2001 is amortized on a straight-line basis over a period not exceeding 40 years or written down when there has been a permanent impairment in value. Amortization recorded in 2001 was \$433,000 (2000 – \$1,078,000; 1999 – \$1,075,000). For 2000 and 1999 goodwill was amortized over a period not exceeding 20 years. This change reduced amortization by \$529,000 for the year ended December 31, 2001. Goodwill on acquisitions subsequent to July 1, 2001 is not amortized but is subject to an annual permanent impairment test (see Note 2).

f) Pensions The cost of pension benefits earned by employees covered under defined benefit plans is determined using the projected benefit method prorated on service and is charged to expense as services are rendered. Aggregate gains and losses are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups, using the corridor approach. The cost of post-retirement benefits other than pensions is recognized on an accrual basis over the working lives of employees.

g) Income taxes The Company uses the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between financial accounting and the tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company adopted the new Canadian accounting standards for income taxes effective January 1, 2000 (see Note 2).

Prior to January 1, 2000, the Company used the deferral method of tax allocation. The 1999 income tax figures are presented in accordance with the former standard.

h) Foreign currency translation The accounts of foreign subsidiaries are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rate of exchange for the year. The resulting gains or losses are accumulated as a separate component of shareholders' equity.

Exchange gains or losses on the translation of long-term debt denominated in a foreign currency designated as a hedge of the Company's net investment in foreign subsidiaries are included in the separate component of shareholders' equity. Effective January 1, 2001, the Company adopted the new Canadian accounting standards on foreign currency translation and accordingly, exchange gains or losses on long-term debt denominated in foreign currencies not designated as a hedge are expensed as incurred (see Note 2).

i) Earnings per share Basic earnings per common share are calculated using the weighted daily average number of common shares outstanding. The weighted average number of common shares for 2001 was 37,981,501 (2000 – 41,068,870; 1999 – 49,573,917).

j) Stock-based compensation The Company adopted the new accounting standard for stock-based compensation and other stock-based payments. The Company has chosen to account for the employee stock-based compensation plans using the intrinsic

value-based method as allowed by the new standard. As required by the standard, pro forma net income and earnings per share have been provided as if the fair value-based accounting method had been used (see Note 11).

k) Revenue recognition Revenue is recognized when the goods are shipped to the customer. Revenue on certain sales in the energy segment, where the Company acts as an agent, is also recognized when the goods are shipped and is presented on a net basis.

l) Use of estimates The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. In particular, provisions for environmental cleanup costs of previously discontinued operations, inventories and other contingencies represent management's best estimates. Actual results could differ from these estimates.

2. Change in Accounting Policies

a) Effective July 1, 2001, the Company adopted the new accounting standard for business combinations. The Company has applied this new standard in its acquisitions subsequent to July 1, 2001 (see Note 3) and the goodwill generated from these acquisitions is not amortized as required by the transitional provisions of the goodwill standard. Effective January 1, 2002, the Company has adopted the entire standard for goodwill and other intangible assets and has ceased the amortization of goodwill for acquisitions prior to July 1, 2001.

b) Effective January 1, 2000, the Company adopted the liability method of tax allocation for accounting for income taxes as provided under the new Canadian accounting standards. Under the liability method, future tax assets and liabilities are determined based on differences between the financial accounting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company elected to adopt these standards retroactively without restatement. The cumulative effect of adopting the standard was an increase in net tax assets of \$17,767,000, cumulative translation adjustment of \$898,000 and retained earnings of \$18,665,000 as of January 1, 2000.

c) Effective January 1, 1999, the Company adopted the new Canadian accounting standards for employee future benefits and elected to adopt retroactively with no restatement. These new standards require accrual accounting for retirement and post-employment benefits and the use of current market rates to estimate the present value of the pension liability. The transitional obligation of \$14,304,000 arising out of the application of the new standards has been charged to retained earnings in 1999. The effect of the change in the accounting policy was not significant to the earnings in the periods reported.

d) Effective January 1, 2001, the Company adopted the new Canadian accounting standards for earnings per share, foreign currency translation and stock-based payments. Under the new earnings per share standard, the treasury stock method is used for determining the dilutive effect of stock options issued. Under the new accounting standard for foreign currency translation, foreign exchange gains and losses on long-term debt are no longer deferred and amortized. The new accounting standard on stock-based compensation permits the intrinsic value-based method of accounting for stock-based compensation. The implementation of these standards does not have a material effect on the Company's results of operations, financial position or cash flows.

3. Business Acquisitions

Effective October 15, 2001, the Company purchased 100% of the shares of A. J. Forsyth and Company Limited, a Canadian service center operation located in British Columbia, for cash consideration of \$22.0 million and assumed bank debt of \$13.9 million. The acquisition was to strengthen the B.C. Region and led to the restructuring of the B.C. service center operations. Costs associated with the restructuring of the A. J. Forsyth locations were included in goodwill on acquisition, which totaled \$7.6 million, of which \$0.8 million is deductible for tax. The costs of restructuring the Russel Metals locations of \$2.4 million have been charged to income.

Effective August 16, 2001, the Company purchased 100% of the shares of Spartan Steel Products, Inc., a U.S. distributor of energy sector pipe, for cash consideration of \$3.0 million and assumed bank debt of \$3.3 million.

Effective October 9, 2001, the Company purchased 100% of the shares of 1377804 Ontario Inc., a Canadian service center operation located in Ontario, for cash consideration of \$255,000.

Notes

Effective September 1, 2000, the Company purchased Triumph Tubular & Supply Ltd., a Calgary, Alberta distributor of oil country tubular goods, for \$4.5 million cash and assumed bank debt of \$5.3 million. Additional amounts under an earnout based on results may be paid over five years and will be incremental to goodwill. The additional amount related to 2001 is \$102,000 (2000 – \$509,000).

These acquisitions have been accounted for using the purchase method and their results of operations have been consolidated since their respective acquisition dates.

Net assets acquired, at assigned values at acquisition dates:

(\$000)	2001	2000
Accounts receivable	\$ 12,323	\$ 16,503
Inventories	15,945	4,587
Fixed assets	16,693	53
Other assets	510	12
Goodwill	8,321	3,000
Total assets	53,792	24,155
Accounts payable and accrued liabilities	(8,203)	(14,385)
Future income taxes	(3,181)	—
Net identifiable assets	42,408	9,770
Bank debt assumed	(17,120)	(5,270)
Net assets acquired	\$ 25,288	\$ 4,500

In May 2001, the Company announced that it had been unsuccessful in finalizing an agreement for the acquisition of a U.S. service center operation. The due diligence process and legal expenses resulted in a write-off of costs of \$1.7 million.

4. Divestitures

Divestitures include the sale of the inventory and fixed assets of Total Distributors, the Company's Tulsa based energy sector operation for cash of \$9.6 million on June 15, 2001. This sale resulted in a loss on sale of business of \$6.0 million.

5. Property, Plant and Equipment

(\$000)	2001		2000	
	Cost	Net	Cost	Net
Land and buildings	\$ 71,157	\$ 41,948	\$ 61,030	\$ 33,461
Machinery and equipment	153,647	56,601	144,090	54,832
Leasehold improvements	24,933	10,490	24,830	10,954
	\$ 249,737	\$ 109,039	\$ 229,950	\$ 99,247

6. Other Assets

Other assets include demand loans to officers at prescribed interest rates for the purchase of Company shares in the amount of \$741,670 (2000 – \$226,000).

7. Revolving Credit Facilities

The Company has a credit facility with a syndicate of banks which provides a line of credit to a maximum of \$253.8 million, including letters of credit. The Company has extended the facility to June 19, 2005. Borrowings under this facility are restricted by certain financial covenants with which the Company was in compliance at December 31, 2001. The obligations of the Company under this Agreement are secured by a pledge of trade accounts receivable and inventories of substantially all of the Company's operations. At December 31, 2001, the Company had no borrowings (2000 – \$12.0 million) and letters of credit of \$10.5 million (2000 – \$9.7 million) under this facility.

In addition, certain U.S. subsidiaries of the Company have their own credit facility. The maximum borrowing under this facility is US \$35.0 million. At December 31, 2001, these subsidiaries had borrowings of US \$0.5 million (2000 – US \$8.0 million) and letters of credit of US \$1.8 million (2000 – US \$3.0 million).

8. Long-Term Debt

(\$000)	2001	2000
10% Senior Notes (2001 – US \$115.6 million; 2000 – US \$125.0 million) due June 1, 2009	\$ 184,105	\$ 187,525
8% Subordinated Debentures due June 15, 2006	30,000	30,000
	\$ 214,105	\$ 217,525

a) **10% Senior Notes** On May 26, 1999, the Company completed the issue of Senior Notes of US \$125 million due June 2009 bearing interest at 10%. The proceeds of this issue plus cash on hand were used to redeem the outstanding 10.25% Senior Notes of US \$87.0 million on June 25, 1999 and the outstanding 9% Convertible Debentures of \$70.3 million on June 28, 1999. During the year ended December 31, 2001, the Company repurchased US \$9.4 million of the 10% Senior Notes for US \$9.4 million in cash.

US \$69.4 million (2000 – US \$75.0 million) of these are notes of Russel Metals Inc., legal entity, and have been designated as a hedge of the Company's net investment in foreign subsidiaries. The remaining US \$46.2 million (2000 – US \$50.0 million) are notes of RMI USA LLC, a U.S. subsidiary of Russel Metals Inc.

The notes are redeemable, as units, in whole or in part, at the joint option of the Company and the U.S. Subsidiary, on or after June 1, 2004 at 105% of the principal amount declining rateably to 100% of the principal amount on or after June 1, 2007. In addition, the notes are also redeemable, in whole, at the option of the Company at any time at 100% of the principal amount in the event of certain changes affecting Canadian withholding taxes. The notes contain certain restrictions on the payment of common share dividends.

b) **8% Subordinated Debentures** The 8% Subordinated Debentures, which are unsecured and mature in June 2006, are redeemable at face value subject to certain conditions being met.

9. Interest expense

(\$000)	2001	2000	1999
Interest on long-term debt	\$ 21,396	\$ 21,533	\$ 19,077
Other interest expense	1,621	2,316	266
	\$ 23,017	\$ 23,849	\$ 19,343

Total interest paid by the Company in 2001 was \$23,272,000 (2000 – \$23,654,000; 1999 – \$23,750,000). The 1999 amount paid includes the amount recorded in retained earnings as a distribution for the 9% Convertible Debentures included in equity.

10. Income taxes

a) The non-current future income tax balances consist of:

(\$000)	2001	2000
Future income tax assets		
Tax benefits of loss carryforwards	\$ 11,421	\$ 7,645
Plant and equipment	(2,481)	6,894
Pensions and benefits	2,999	3,261
Other timing	2,572	413
Unrealized foreign exchange charged to equity	3,638	1,290
Gross future income tax assets	18,149	19,503
Valuation allowance	(5,496)	(8,211)
Total future income tax assets	12,653	11,292
Future income tax liabilities		
Plant and equipment	(4,530)	(5,188)
Other timing	71	(313)
Total future income tax liabilities	(4,459)	(5,501)
Net future income taxes	\$ 8,194	\$ 5,791

Notes

b) The Company's effective income tax rate is derived as follows:

(\$000)	2001	2000	1999
Average combined statutory rate	41.9%	43.5%	45.0%
Statutory tax rate changes	(2.4%)	0.9%	—
Large Corporation Tax	2.8%	0.6%	—
Rate difference of U.S. companies	4.1%	(0.7%)	—
Benefit of losses carried forward	—	—	(39.6%)
Benefit of current year timing differences	—	—	(11.3%)
Other	(1.1%)	(0.8%)	0.9%
Average effective tax rate	45.3%	43.5%	(5.0%)

At January 1, 2000, the Company adopted the new standard for income taxes. All tax losses that were determined more likely than not to be utilized were recognized on the balance sheet resulting in an increase in net current tax assets of \$8.4 million, non-current future income tax balances of \$9.4 million and shareholders' equity of \$17.8 million.

Prior to 1999, the Company had determined under the previous standard that virtual certainty of realizing all tax benefits within Canada was not present and only balances relating to U.S. assets were recorded on the balance sheet. In 1999, current timing differences related to Canadian earnings were recorded as future tax assets.

c) The details of the income tax provision (recovery) are as follows:

(\$000)	2001	2000	1999
Current provision	\$ 3,631	\$ 2,944	\$ 2,543
Future provision (recovery)	3,881	15,089	(4,522)
Statutory rate adjustments	(378)	360	—
	\$ 7,134	\$ 18,393	\$ (1,979)

d) Income taxes paid (recovered) in 2001 were \$2,058,000 (2000 – \$3,838,000; 1999 – \$(2,352,000)).

e) The Company has Canadian net operating losses carried forward for tax purposes for which a valuation allowance has been recorded that expire as follows:

(\$000)	Year of Expiry	Amount
	2004	\$ 3,436
	2005	3,810
	2006	1,731
	2007	1,248
	2008	571

In addition, the Company has recorded a valuation allowance for timing differences of approximately \$3.7 million (2000 – \$7.5 million).

11. Shareholders' Equity

a) The components of shareholders' equity are as follows:

(\$000)	2001	2000
Common shares	\$ 122,071	\$ 122,071
Retained earnings	100,461	101,699
Cumulative translation adjustment	(5,814)	(5,715)
	\$ 216,718	\$ 218,055

b) At December 31, 2001, the authorized share capital of the Company consists of:

- (i) an unlimited number of common shares without nominal or par value;
- (ii) an unlimited number of Class I preferred shares without nominal or par value, issuable in series; and
- (iii) an unlimited number of Class II preferred shares without nominal or par value, issuable in series.

The Company has 1,200,000 cumulative, redeemable Class II preferred shares, Series C with annual cash dividends of \$1.875 per share payable in quarterly instalments authorized, issued and outstanding as of December 31, 2001 and 2000. This series of Class II preferred shares is non-voting and is redeemable at a price of \$25 per share without condition.

The Directors have the authority to issue the Class I and Class II preferred shares in series and fix the designation, rights, privileges and conditions to be attached to each series, except the Class I shares shall be entitled to preference over the Class II shares with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Company.

c) The number of common shares issued and outstanding at December 31 was as follows:

	Number of Shares	Amount (\$000)
Balance, December 31, 1999	47,489,547	\$ 152,571
Shares purchased – normal course issuer bid	(2,384,000)	(7,652)
– substantial issuer bid	(7,143,935)	(22,932)
Stock options exercised	19,900	84
Fractional shares bought and cancelled	(11)	—
Balance, December 31, 2001 and 2000	37,981,501	\$ 122,071

In February 2001 and 2000, the Company received approval for a normal course issuer bid, allowing the Company to purchase its common shares on the open market over a twelve month period.

On March 6, 2000, the Company issued an offer to purchase for \$30 million in cash up to 8 million of its common shares for not more than \$4.25 and not less than \$3.75, in the form of a dutch auction style substantial issuer bid. On March 31, 2000, the Company purchased 7,143,935 shares pursuant to this bid at \$4.20 per share. The stated capital has been removed from the common share account and the remainder charged to retained earnings.

The common shares purchased were cancelled.

d) The Company has a shareholder approved share option plan, the purpose of which is to provide the Directors and employees of the Company and its subsidiaries with the opportunity to participate in the growth and development of the Company. The number of common shares that may be issued under the share option plan is 4,500,000. The options are exercisable on a cumulative basis to the extent of either 33 1/3% or 20% per year of total options granted, except that under certain specified conditions the options become exercisable immediately. Any consideration paid by employees for purchase of common shares is added to share capital.

The following is a continuity schedule of options outstanding:

	Number of Options		Weighted Average Exercise Price	
	2001	2000	2001	2000
Balance, beginning of the year	1,884,600	1,552,100	\$ 4.45	\$ 4.73
Granted	629,000	483,000	3.06	3.59
Exercised	—	(19,900)	—	4.24
Expired	(220,000)	(130,600)	5.44	4.72
Balance, end of the year	2,293,600	1,884,600	\$ 3.97	\$ 4.45
Exercisable	1,360,400	1,134,433	\$ 4.39	\$ 4.82

The outstanding options at December 31, 2001 have exercise prices ranging from \$3.00 to \$6.375. These options expire in the years 2002 to 2011 and have a weighted average remaining contractual life of 7.8 years.

Notes

At January 1, 2001, the Company adopted the new accounting standard for stock-based compensation. As permitted by the standard, the Company has elected to account for stock options using the intrinsic value-based method.

Pro forma net earnings and earnings per share, as calculated under the fair value-based method are as follows:

(\$000 except per share data)	2001	2000	1999
Net earnings	\$ 7,707	\$ 22,862	\$ 40,854
Basic earnings per common share	\$ 0.14	\$ 0.50	\$ 0.72

The Black Scholes option-pricing model assumptions used to compute compensation expense under the fair value-based method are as follows:

	2001	2000	1999
Dividend yield	5.0%	5.0%	—
Expected volatility	41.8%	47.5%	48.9%
Expected life	10 yrs	10 yrs	10 yrs
Risk free rate of return	5.0%	5.0%	5.0%
Weighted average fair value of options granted	\$ 0.91	\$ 1.19	\$ 2.33

12. Financial Instruments

a) Fair value As at December 31, 2001 and 2000, the estimated fair value of financial assets, liabilities and off balance sheet instruments approximates their carrying values.

The estimated fair value of long-term debt as at December 31, 2001 and 2000 is estimated based on the last quoted trade price, where they exist, or on the current rates available to the Company for similar debt of the same remaining maturities.

(\$000)	2001	2000
Long-term debt		
Carrying amount	\$ 214,105	\$ 217,525
Fair value	217,458	192,877

b) Credit risk The Company, in the normal course of business, is exposed to credit risk from its customers. This risk is mitigated by the fact that its customer base is geographically diverse and in different industries. The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Company mitigates this risk by entering into forward contracts with Canadian chartered banks only.

c) Interest rate risk The Company is not exposed to significant interest rate risk. The Company's long-term debt is at fixed rates. The Company's bank debt that is used to finance working capital, which is short term in nature, is at floating interest rates.

d) Foreign exchange risk The Company uses foreign exchange contracts to manage foreign exchange risk on certain future committed cash outflows. As at December 31, 2001, the Company had outstanding forward foreign exchange contracts in the amounts of US \$6.0 million (2000 – US \$4.5 million) and Euro 0.4 million (2000 – DM 0.9 million).

The Company has designated US \$69.4 million of the Senior Notes and other U.S. borrowings as a hedge of its net investment in foreign subsidiaries. The exchange gains and losses on U.S. borrowing not required to hedge its net investment are charged to income as incurred. This resulted in a foreign exchange loss of \$1.4 million in 2001.

13. Segmented Information

The Company conducts business primarily in three metals business segments.

i) **Service center distribution** The Company's network of service centers carries a full line of metal products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. The Company services all major geographic regions of Canada and selected regions in the United States.

ii) **Energy sector distribution** The Company's energy sector distribution operations carry a more specialized and limited product line than the service centers. These operations distribute pipe, tubular products and valves, primarily to the energy sector in Western Canada and the Western United States.

iii) **Steel import/export** The Company's steel import/export business primarily imports foreign steel products into Canada and the United States for sale to third party steel service centers and other customers.

The Company has segmented its operations on the basis of management reporting and geographic segments in which it operates.

a) Results by business segment:

(\$000)	2001	2000	1999
Segment Revenues			
Service center distribution	\$ 706,173	\$ 804,043	\$ 760,568
Energy sector distribution	360,515	331,383	274,519
Steel import/export	321,454	385,355	369,285
	1,388,142	1,520,781	1,404,372
Other	14,367	10,197	11,020
	\$ 1,402,509	\$ 1,530,978	\$ 1,415,392
Segment Operating Profits			
Service center distribution	\$ 19,352	\$ 36,064	\$ 39,501
Energy sector distribution	18,406	15,317	7,362
Steel import/export	14,175	20,126	17,811
	51,933	71,507	64,674
Other income	6,177	2,876	3,513
Corporate expenses	(7,489)	(8,241)	(8,967)
	\$ 50,621	\$ 66,142	\$ 59,220
Identifiable Assets			
Service center distribution	\$ 298,098	\$ 297,702	\$ 316,823
Energy sector distribution	149,623	179,384	124,240
Steel import/export	112,941	144,725	104,440
Identifiable assets by segment	560,662	621,811	545,503
Assets not included in segments			
Cash	17,151	8,923	19,968
Income tax assets	17,950	22,027	4,522
Deferred financing charges	6,177	7,613	8,249
Other assets	3,197	5,198	31,171
Corporate and other operating assets	31,732	28,885	47,033
Total assets	\$ 636,869	\$ 694,457	\$ 656,446

Notes

b) Results by geographic segment:

(\$000)	2001	2000	1999
Segment Revenues			
Canada	\$ 941,105	\$ 1,032,222	\$ 903,295
United States	447,037	488,559	501,077
	\$ 1,388,142	\$ 1,520,781	\$ 1,404,372
Segment Operating Profits			
Canada	\$ 46,940	\$ 64,604	\$ 56,306
United States	4,993	6,903	8,368
	\$ 51,933	\$ 71,507	\$ 64,674
Identifiable Assets			
Canada	\$ 425,564	\$ 451,583	\$ 390,850
United States	135,098	170,228	154,653
	\$ 560,662	\$ 621,811	\$ 545,503

14. Pensions and Benefits

The Company maintains defined benefit pension plans and defined contribution pension plans in Canada and 401(k) defined contribution pension plans in the United States.

The components for the Company's pension and benefit expense include the following:

(\$000)	2001	2000	1999
Defined benefit pension plans			
Benefits earned during the year	\$ 1,237	\$ 1,204	\$ 1,386
Interest cost on benefit obligation	3,469	3,332	2,838
Return on plan assets	(3,396)	(3,263)	(2,977)
Other	(110)	(194)	—
	1,200	1,079	1,247
Post retirement benefits	380	365	395
Defined contribution plans			
Paid during the year	522	764	1,020
	2,102	2,208	2,662
Related to discontinued operations	(498)	(505)	(484)
Pension and benefit expense	\$ 1,604	\$ 1,703	\$ 2,178

The actuarial determinations were based on the following assumptions in each year:

	2001	2000	1999
Assumed discount rate – year end	6.5%	7.0%	7.5%
Expected long-term rate of return on plan assets	7.0%	7.0%	7.0%
Rate of increase in future compensation	4.0%	4.0%	4.0%
Rate of increase in future government benefits	3.5%	3.5%	3.5%

The health care cost trend rates used were 5% for dental and 8% (2000 – 9%, 1999 – 10%) graded out for medical, which is reduced 1% per year until 5% and 5% thereafter. A 1% change in trend rates would result in an increase in the accrued benefit obligation for post retirement benefits of \$392,000 or a decrease of \$367,000 and an increase in net periodic cost of \$28,000 or a decrease of \$26,000.

Notes to the Consolidated Financial Statements

The following information pertains to the Company's defined benefit pension and other benefit plans, excluding those which are in the process of being wound up.

	Pension Plans		Other Benefit Plans	
(\$000)	2001	2000	2001	2000
Reconciliation of accrued benefit obligation				
Balance, beginning of the year	\$ 49,831	\$ 41,958	\$ 5,297	\$ 4,976
Current service cost	1,627	1,612	36	33
Interest cost	3,469	3,332	362	366
Benefits paid	(2,319)	(2,396)	(234)	(214)
Plan amendments	106	—	—	—
Actuarial loss	2,827	5,325	144	136
Balance, end of the year	\$ 55,541	\$ 49,831	\$ 5,605	\$ 5,297
Reconciliation of fair value of plan assets				
Balance, beginning of the year	\$ 48,824	\$ 46,861	\$ —	\$ —
Actual return of plan assets	(650)	2,453	—	—
Employer contributions	1,607	1,498	234	214
Employee contributions	390	408	—	—
Benefits paid	(2,319)	(2,396)	(234)	(214)
Balance, end of the year	\$ 47,852	\$ 48,824	\$ —	\$ —
Unamortized amounts				
Funded status – surplus/(deficit)	\$ (7,689)	\$ (1,007)	\$ (5,605)	\$ (5,297)
Unrecognized prior service cost	106	—	—	—
Unamortized net actuarial loss/(gain)	4,425	(1,962)	(582)	(877)
Accrued benefit liability	\$ (3,158)	\$ (2,969)	\$ (6,187)	\$ (6,174)

As at December 31, 2001, the Company has certain unfunded executive arrangements with an accrued benefit obligation of \$4,954,000 (2000 – \$4,851,000). As at December 31, 2001, five (2000 – two) of the Company's pension plans, included in the previous table, had a projected benefit obligation of \$43,247,000 (2000 – \$19,527,000), a fair value of plan assets of \$38,460,000 (2000 – \$19,103,000) and an unfunded obligation of \$4,787,000 (2000 – \$424,000).

The other benefit plans primarily represent obligations to retired employees of sold or closed businesses. Approximately 4.7% of all active employees are entitled to retirement benefits.

(\$000)	2001	2000
Defined contribution plans		
Fair value of plan assets		
Canadian plans	\$ 5,479	\$ 216
401(k) U.S. plans	20,249	19,728
	\$ 25,728	\$ 19,944

In 2001, the above table includes the defined contribution plans of A. J. Forsyth.

(\$000)	2001	2000
Plans in the process of being wound up		
Fair value of plan assets	\$ 15,048	\$ 14,702
Projected benefit obligation	(219)	(189)
Surplus	\$ 14,829	\$ 14,513

The plans in the process of being wound up relate to previously discontinued operations. The resolution of the surplus may result in sharing arrangements with employees of those operations.

As at December 31, 2001, approximately 50% of all pension plan assets were invested in equities, 34% in fixed income securities, and 16% in cash.

15. Discontinued Operations

Prior to 1999, the Company had discontinued a number of operations which were in businesses other than metals. During 1999, the Company had earnings from discontinued operations of \$1.9 million and allocated interest expense of \$1.9 million resulting in net earnings of nil. Comparative figures have been reclassified in accordance with current year presentation.

16. Contingencies and Commitments

a) The Company and certain of its subsidiaries have been named defendants in a number of legal actions. Although the outcome of these claims cannot be determined, management intends to defend all claims and has recorded provisions based on its best estimate of the potential losses. In the opinion of management the resolution of these matters is not expected to have a materially adverse effect on the Company's financial position, cash flows or operations.

b) The Company and its subsidiary companies have operating lease commitments, with varying terms, requiring approximate annual payments as follows: 2002 – \$8,035,000; 2003 – \$6,486,000; 2004 – \$4,895,000; 2005 – \$3,421,000; 2006 – \$2,356,000; 2007 and beyond – \$4,009,000. Rental expense on operating leases were as follows: 2001 – \$10,645,000, 2000 – \$12,741,000, and 1999 – \$13,192,000.

c) The Company is incurring site cleanup and restoration costs related to properties held for resale and discontinued operations. Remedial actions are currently underway at several sites. The estimated costs of these cleanups have been provided for in discontinued operations based on management's best estimates. Additional costs may be incurred at these or other sites, as site cleanup and restoration progress, but the amounts cannot be quantified at this time.

17. United States Generally Accepted Accounting Principles

The following table represents the material differences between Canadian and U.S. Generally Accepted Accounting Principles (GAAP):

(\$000 except per share data)	2001	2000	1999
Net earnings for the year under Canadian GAAP	\$ 8,608	\$ 23,900	\$ 41,856
Income taxes	(360)	360	18,665
Amortization of transitional obligation – pensions	(561)	(561)	(561)
Amortization of unrealized exchange loss on long-term debt	—	—	507
Unrealized exchange gain on long-term debt	—	—	767
Distribution on the 9% Convertible Debentures	—	—	(2,885)
Net earnings according to U.S. GAAP	7,687	23,699	58,349
Distributions – U.S. GAAP	2,250	2,250	2,250
Net earnings available to common shareholders – U.S. GAAP	5,437	21,449	56,099
Other comprehensive income items:			
Change in currency translation adjustment	(2,803)	(2,554)	586
Tax effect of change in currency translation adjustment	2,704	2,188	(898)
Minimum pension liability	(5,178)	(617)	—
Comprehensive earnings – U.S. GAAP	\$ 160	\$ 20,466	\$ 55,787
Opening retained earnings and comprehensive earnings – U.S. GAAP	\$ 103,016	\$ 97,348	\$ 34,247
Transitional obligation	—	—	8,411
Dividends on common shares	(7,596)	(5,854)	—
Amount related to common shares purchased for cancellation	—	(8,944)	(1,097)
Comprehensive earnings – U.S. GAAP	160	20,466	55,787
Closing retained earnings and comprehensive earnings – U.S. GAAP	\$ 95,580	\$ 103,016	\$ 97,348
Basic earnings per common share – Canadian GAAP	\$ 0.17	\$ 0.53	\$ 0.74
Basic earnings per common share – U.S. GAAP	\$ 0.14	\$ 0.52	\$ 1.13

a) Effective January 1, 2000, the Company adopted the new Canadian accounting standards for accounting for income taxes. Prior to January 1, 2000, the Company followed the deferral method of tax allocation in accounting for income taxes. Under U.S. GAAP, the Company was required to account for future income taxes using the liability method whereby future tax assets and liabilities are measured at currently enacted tax rates and valuation allowances are required when it is not "more likely than not" that portions of the future tax assets will be realized. During 1999, the more likely than not standard was met on certain future tax assets resulting in a realization of prior year taxes of \$18.7 million.

Canadian standards require an adjustment to income when changes in income tax rates have been substantively enacted. A proposed change in income tax rates resulted in a charge to income of \$360,000 for the year ended December 31, 2000. As at December 31, 2000, this tax rate change had not been enacted as required by the U.S. standards. In 2001, this proposed change was enacted.

b) Statement of Financial Accounting Standards No. 87, Employer's Accounting for Pensions, requires that the transitional obligation be amortized over the expected average service lives of the employee group rather than charged to retained earnings immediately as allowed under the Canadian standards. In addition, the U.S. standard requires the recognition of an additional minimum pension liability. Four of the Company's plans have a minimum liability which has been charged to other comprehensive income under U.S. GAAP.

c) The portion of the gain or loss on translation of the Company's U.S. currency denominated debt, which is not used to hedge the Company's net investment in U.S. subsidiaries, was deferred and amortized over the remaining life of the debt. Under U.S. GAAP, the gain or loss on translation is included in income when it arises. In 2001 and 2000, the entire U.S. denominated debt was designated as a hedge.

d) The 9% Convertible Debentures, redeemed in June 1999, were split between long-term debt and shareholders' equity. Under U.S. GAAP, the debenture would have been treated as a debt instrument. Interest expense recorded as a distribution from retained earnings would have been included in net income.

e) Other comprehensive income also includes changes in the cumulative translation account and the taxes thereon. This account represents a reduction in the Company's shareholders' equity and represents unrealized translation adjustments, which arise on the translation to Canadian dollars of foreign denominated assets and liabilities.

f) The Company adopted SFAS 133 Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities and the corresponding amendments under SFAS 138 effective January 1, 2001. SFAS 133, as amended by SFAS 138, did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

g) In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations and SFAS 142, Goodwill and Other Intangible Assets. The effect of adopting these standards is not materially different from the adoption of the Canadian standards (see Note 2). The Company has not determined the effect the impairment test will have on the results of operations and financial position of the Company; however, it may result in a write-off of goodwill in future periods. Also, during 2001, FASB issued SFAS 143, Accounting for Asset Retirement Obligations and SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which are not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

Information

2001

(Unaudited)	Three Months Ended				Year Ended
	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31
Revenues (\$000)	\$ 398,697	\$ 352,831	\$ 336,832	\$ 314,149	\$ 1,402,509
Earnings from operations (\$000)	13,981	12,932	12,338	11,370	50,621
Earnings before taxes (\$000)	6,164	(566)	6,051	4,093	15,742
Net earnings (\$000)	3,602	(694)	3,540	2,160	8,608
Basic earnings per common share	\$ 0.08	\$ (0.03)	\$ 0.08	\$ 0.04	\$ 0.17
Market price of common shares					
High	\$ 3.55	\$ 3.74	\$ 3.90	\$ 3.68	\$ 3.90
Low	\$ 2.70	\$ 3.00	\$ 3.12	\$ 3.25	\$ 2.70
Number of common shares traded	4,797,624	2,619,819	1,367,335	1,988,062	10,772,840

2000

(Unaudited)	Three Months Ended				Year Ended
	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31
Revenues (\$000)	\$ 401,004	\$ 383,590	\$ 371,978	\$ 374,406	\$ 1,530,978
Earnings from operations (\$000)	23,969	16,017	12,422	13,734	66,142
Earnings before taxes (\$000)	18,528	10,095	6,361	7,309	42,293
Net earnings (\$000)	10,648	5,946	3,507	3,799	23,900
Basic earnings per common share	\$ 0.21	\$ 0.14	\$ 0.08	\$ 0.09	\$ 0.53
Market price of common shares					
High	\$ 4.20	\$ 4.95	\$ 4.15	\$ 3.85	\$ 4.95
Low	\$ 3.40	\$ 3.75	\$ 3.77	\$ 2.75	\$ 2.75
Number of common shares traded	5,361,649	2,177,764	2,507,441	3,599,429	13,646,283

The members of the Board of Directors are:**Carl R. Fiora**

Corporate Director,
steel industry executive

Robbert Hartog

President
Robhar Investments Ltd.

Edward M. Siegel, Jr.

President and Chief Executive Officer
Russel Metals Inc.

Martin H. Freedman, Q.C.

Partner, Aikins, MacAulay & Thorvaldson
Barristers & Solicitors

Lise Lachapelle

Corporate Director

Arni C. Thorsteinson

President
Shelter Canadian Properties Limited

Anthony F. Griffiths

Corporate Director
Chairman of the Board,
Russel Metals Inc.

John W. Robinson

Corporate Director,
steel industry executive

Russel Metals' Board of Directors places high value on the responsible fulfilment of its duties to the Company and its shareholders. The Board has considered and modified, where changes have been identified, its corporate governance practices in light of the guidelines set out in the 1994 Toronto Stock Exchange Committee on Corporate Governance and current advances in Corporate Governance and is satisfied it operates effectively and independently of management.

Mandate of the Board The Board's mandate is to supervise the management of the business and affairs of the Company. Through the Board's stewardship of the Company, the goal is to enhance long-term value for the shareholders. The Board discharges its responsibility by delegating to management responsibility for day-to-day operations of the business, by monitoring the Company's performance and by considering and approving the Company's strategic direction. The Board has implemented a number of practices to promote effective governance, including a written job description for the CEO, an annual written questionnaire to all Directors and at least two annual Board meetings where management is not present for portions of the meeting.

Composition of the Board The Directors bring to the Company a balance of industry and operational expertise as well as backgrounds in other areas which the Board believes are of benefit. The Board has concluded that all of the Directors of the Company, other than Mr. Siegel, are unrelated within the meaning of the Toronto Stock Exchange Guidelines.

Committees of the Board The Board delegates certain of its functions to four committees of the Board to facilitate more detailed consideration of certain issues. Each of the committees is comprised entirely of unrelated directors.

Audit Committee The Audit Committee reviews the Company's financial statements, monitors internal control procedures and meets regularly with the external auditors. The members are: M.H. Freedman, R. Hartog, L. Lachapelle (chair), and J.W. Robinson.

Corporate Governance Committee The Corporate Governance Committee develops comprehensive written mandates for each of the Board committees, monitors and evaluates the corporate governance system, recommends candidates for election to the Board and serves as a forum for concerns of Directors which may not be appropriate for discussion in full Board meetings. The members are: C.R. Fiora, A.F. Griffiths (chair), L. Lachapelle and A.C. Thorsteinson.

Management Resources and Compensation Committee The Management Resources and Compensation Committee reviews compensation policies for the Company's executive officers and is responsible for succession planning for the most senior members of management. The members are: C.R. Fiora, A.F. Griffiths, R. Hartog, and A.C. Thorsteinson (chair).

Environmental Management and Health & Safety Committee The Company has established an Environmental Management and Health & Safety Committee for the purpose of reviewing compliance policies and procedures in accordance with legislative and regulatory requirements with regard to Environmental and Health & Safety issues. The members are: C.R. Fiora (chair), M.H. Freedman and J.W. Robinson.

Additional information about the Company's governance practices may be found in the Management Proxy Circular.

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Chairman of the Board
Toronto

Edward M. Siegel, Jr.

President and Chief Executive Officer
Mississauga

Brian R. Hedges

Executive Vice President and
Chief Financial Officer
Mississauga

Marion E. Britton

Vice President, Controller and
Assistant Secretary
Mississauga

Elaine G. Hillis

Assistant Secretary
Mississauga

William M. O'Reilly

Secretary
Davies Ward Phillips & Vineberg, LLP
Toronto

Metal Operations Service Centers

Operating under the name
RUSSEL METALS, unless otherwise
noted below

Canada

Yukon

Whitehorse
A. J. Forsyth
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Operating under the name
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Kelowna

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Kitimat

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Grande Prairie

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Russel Drilling & Industrial Supply

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Tel: (905) 819-7777

Milspec Industries

5036 South Service Road, L7L 5Y7
(Specializing in strapping)
Tel: (905) 333-0646

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Vantage Laser Cutting
1600 Industrial Road, Unit #10
N3H 4W5
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Hamilton

175 Shaw Street, L8N 3S2
(Specializing in non-ferrous sales)
Tel: (905) 522-5930
(Specializing in chain)
Tel: (905) 522-1130

B&T Steel

400 Gage Ave. North, L8L 7B2
(Specializing in flat rolled)
Tel: (905) 544-6866

Kingston

191 Dalton Avenue, K7K 6C2
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London

685 Hale Street, N5W 1J1
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Milton

York Steel
8725 Holgate Crescent, L9T 2X7
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McCabe Steel
687 Arvin Ave., L8E 5R2
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Drummond McCall

620 Norah Crescent, P7C 5V8
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Stonewall, Manitoba

116 - 4th Street East, R0C 2Z0
Tel: (204) 467-8797

Guelph, Ontario

Kerr Industrial Park
N1H 6H9
Tel: (519) 763-1114

Sarnia, Ontario

1018 Gladwish Drive North, N7T 7H3
Tel: (519) 332-6666

Dollard des Ormeaux, Quebec

65 Brunswick Ave., Ste. #106, J6W 5H9
Tel: (514) 421-2455

Fedmet Tubulars

700 - 9th Avenue S.W., Ste. 2200
Calgary, Alberta, T2P 3V4
Tel: (403) 237-0955

Triumph Tubular & Supply

441 - 5th Avenue S.W., Ste. 875
Calgary, Alberta, T2P 2V1
Tel: (403) 262-3777

United States

Pioneer Pipe

Denver, Colorado
1660 Lincoln Street, Ste. 2300, 80264
Tel: (303) 289-3201

London, Utah (Provo)

1610 West 200 South, 84042
Tel: (801) 224-8739

Houston, Texas

2203 Timberlock Place, Ste. 125-1
The Woodlands, 77380
Tel: (281) 292-2875

Spartan Steel Products

Evergreen, Colorado
2942 Evergreen Pkwy, Ste. 207, 80439
Tel: (303) 670-9048

Import/Export

Canada

Wirth Steel

Montreal, Quebec
1 Westmount Square, Ste. 200
H3Z 2P9
Tel: (514) 939-5555

Burnaby, British Columbia

4603 Kingsway, Ste. 308
V5H 4M4 Canada
Tel: (604) 436-1741

United States

Sunbelt Group

Houston, Texas
Sunbelt Group
1990 Post Oak Blvd., Ste. 1550
77056-3813
Tel: (713) 840-0550

Continental Wood Trading

1990 Post Oak Blvd., Ste. 1550
77056
Tel: (713) 629-1701

Overland Park, Kansas

Sunbelt Trading (Kansas)
7300 W. 110th Street, Ste. 660
66210
Tel: (913) 491-6660

Other

Thunder Bay Terminals Ltd.

Station F, McKellar Island,
Thunder Bay, Ontario, P7C 5J7 Canada
Tel: (807) 625-7800

Shareholder Information

Stock Symbols:

THE Toronto Stock Exchange -
RUS; RUS.PR.C

Transfer Agent and Registrar

CIBC Mellon Trust Company

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Internet: www.cibcmellon.ca



A Growing Strength in the North American Metals Distribution Industry

Russel Metals is one of the largest metals distribution and processing companies in North America based on revenues and tons sold. The Company conducts its distribution business primarily in three metals segments: service centers; energy sector pipe, tube, valves and fittings; and import/export. Russel Metals is one of the few metals distribution companies in the world to operate a significant international trading operation in conjunction with service centers.

Service Centers – Purchases metal in large volumes from producers principally in North America, adds value by providing a wide range of value added services, and then distributes the product to a broad base of approximately 15,000 end users through a network of 45 Canadian and 5 U.S. locations. Within Canada, this segment operates under the names Russel Metals, Métaux Russel, Drummond McCall, A. J. Forsyth, B&T Steel and McCabe Steel and in the U.S. under the names Russel Metals – Bahcall Group and Baldwin International.

Energy Sector – The five business units distribute pipe, tube, valves and fittings, chiefly to the energy sector in Western Canada and the Western United States from 5 Canadian and 2 U.S. locations. The Canadian locations operate under the names Comco Pipe and Supply Company, Fedmet Tubulars and Triumph Tubular & Supply, while the U.S. locations operate under the names Pioneer Pipe and Spartan Steel.

Import/Export – Exports North American steel products to international end users and imports foreign steel products into Canada and the United States for customers that include both steel mills and metals distribution companies. The import/export business operates from Canada as Wirth Steel and from the U.S. as the Sunbelt Group.

Russel Metals has over 1,900 metals employees with offices and operations throughout North America. The Company's head office is in Mississauga, Ontario, Canada.

Strategy for Strengthening the Company's Future

To be an aggressive, proactive, top performing metals distribution and import/export business, seeking to create value through diligent emphasis on bottom line performance and effective asset management throughout the organization.

